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DELTA REPORT

10-Q

REKR - REKOR SYSTEMS, INC.

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	868
CHANGES	82
DELETIONS	392
ADDITIONS	394

REFINITIV

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023 September 30, 2023

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
(Address principal executive offices)

21046
(Zip Code)

(410) 762-0800
(Registrant's telephone number, including area code)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

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

As of August 14, 2023November 14, 2023, the Registrant hhad 68,951,155ad 69,147,093 shares of common stock, $0.0001 par value per share outstanding.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Quarterly Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties, including particularly statements regarding our future results of operations and financial position, business strategy, prospective products and services, timing and likelihood of success, plans and objectives of management for future operations and future results of current and anticipated products and services. These statements involve uncertainties, such as known and unknown risks, and are dependent on other important factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance or achievements we express or imply. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions described under the sections in our Annual Report on Form 10-K for the year ended December 31, 2022 entitled "Risk Factors" and elsewhere in this Quarterly Report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Form 10-Q and in other documents we file from time to time with the SEC that disclose risks and uncertainties that may affect our business. The forward-looking statements in this Form 10-Q do not reflect the potential impact of any divestiture, merger, acquisition, or other business combination that had not been completed as of the date of this filing. 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, you should not rely on these forward-looking statements as predictions of future events. We undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise.

REKOR SYSTEMS, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2023 SEPTEMBER 30, 2023

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REKOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

(Unaudited)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
ASSETS	**ASSETS**		**ASSETS**	
Current assets				
Cash and cash equivalents	$ 2,438	$ 1,924	$ 7,034	$ 1,924
Restricted cash and cash equivalents	346	254	325	254
Accounts receivable, net	5,703	3,238	7,024	3,238
Inventory	2,676	1,986	3,459	1,986
Note receivable, current portion	340	340	340	340
Other current assets, net	1,396	1,202	1,674	1,202
Current assets of discontinued operations	-	331	-	331
Total current assets	12,899	9,275	19,856	9,275
Long-term assets				
Property and equipment, net	14,971	16,733	14,077	16,733
Right-of-use operating lease assets, net	9,348	9,662	9,516	9,662
Right-of-use financing lease assets, net	1,177	-	1,994	-
Goodwill	20,593	20,593	20,593	20,593
Intangible assets, net	19,226	21,299	18,208	21,299
Note receivable, long-term	652	822	567	822
SAFE investment	1,904	2,005	-	2,005
Deposits	3,144	3,451	3,348	3,451
Total long-term assets	71,015	74,565	68,303	74,565
Total assets	$ 83,914	$ 83,840	$ 88,159	$ 83,840
LIABILITIES AND SHAREHOLDERS' EQUITY	**LIABILITIES AND SHAREHOLDERS' EQUITY**		**LIABILITIES AND SHAREHOLDERS' EQUITY**	
Current liabilities				
Accounts payable and accrued expenses	$ 5,447	$ 5,963	$ 5,619	$ 5,963
Notes payable, current portion	1,000	1,000	1,000	1,000
Related party notes, current portion	-	1,000	-	1,000

Loan payable, current portion	91	106	83	106
Lease liability operating, short-term	1,079	1,069	1,143	1,069
Lease liability financing, short-term	271	-	502	-
Contract liabilities, short-term	3,649	3,044	4,503	3,044
Other current liabilities	3,054	2,772	3,427	2,772
Current liabilities of discontinued operations	-	490	-	490
Total current liabilities	14,591	15,444	16,277	15,444
Long-term Liabilities				
Notes payable, long-term	1,000	2,000	1,000	2,000
2023 Promissory Notes, net of debt discount of $1,341	2,659	-		
2023 Promissory Notes - related party, net of debt discount of $2,851	5,649	-		
2023 Promissory Notes, net of debt discount of $1,177			2,823	-
2023 Promissory Notes - related party, net of debt discount of $2,500			6,000	-
Loan payable, long-term	310	349	292	349
Lease liability operating, long-term	13,509	14,237	13,395	14,237
Lease liability financing, long-term	651	-	1,082	-
Contract liabilities, long-term	1,474	1,005	1,517	1,005
Deferred tax liability	52	52	52	52
Other non-current liabilities	2,094	1,416	2,142	1,416
Total long-term liabilities	27,398	19,059	28,303	19,059
Total liabilities	41,989	34,503	44,580	34,503
Commitments and contingencies (Note 9)				
Stockholders' equity				
Common stock, $0.0001 par value; authorized; 100,000,000 shares; issued: 62,043,702, shares as of June 30, 2023 and 54,446,602 as of December 31, 2022; outstanding: 61,952,211 shares as of June 30, 2023 and 54,405,080 as of December 31, 2022.	6	5		
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 June 30, 2023 and December 31, 2022, respectively. No preferred stock was issued or outstanding as of June 30, 2023 or December 31, 2022, respectively.				
Treasury stock, 91,491 and 41,522 shares as of June 30, 2023 and December 31, 2022, respectively.	(506)	(417)		
Common stock, $0.0001 par value; authorized; 100,000,000 shares; issued: 69,233,969, shares as of September 30, 2023 and 54,446,602 as of December 31, 2022; outstanding: 69,137,461 shares as of September 30, 2023 and 54,405,080 as of December 31, 2022.			7	5
Preferred stock, $0.0001 par value, 2,000,000 authorized, 505,000 shares designated as Series A and 240,861 shares designated as Series B as of September 30, 2023 and December 31, 2022, respectively. No preferred stock was issued or outstanding as of September 30, 2023 or December 31, 2022, respectively.			-	-
Treasury stock, 96,508 and 41,522 shares as of September 30, 2023 and December 31, 2022, respectively.			(522)	(417)
Additional paid-in capital	219,218	202,747	231,453	202,747
Accumulated deficit	(176,793)	(152,998)	(187,359)	(152,998)
Total stockholders’ equity	41,925	49,337	43,579	49,337
Total liabilities and stockholders’ equity	$ 83,914	$ 83,840	$ 88,159	$ 83,840

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share amounts)

(Unaudited)

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenue	$ 8,563	$ 3,698	$ 14,748	$ 6,673	$ 9,119	$ 6,778	$ 23,867	$ 13,455
Cost of revenue, excluding depreciation and amortization	4,131	2,241	6,999	3,777	4,320	3,655	11,319	7,445
Operating expenses:								
General and administrative expenses	5,873	8,272	13,078	15,802	6,871	6,775	19,941	22,232
Selling and marketing expenses	2,053	2,649	3,943	3,958	1,498	2,432	5,441	6,390
Research and development expenses	4,783	4,727	9,740	8,861	4,270	4,911	14,011	13,772
Depreciation and amortization	2,003	1,483	3,954	2,625	1,963	1,852	5,925	4,477
Goodwill impairment					-	34,835	-	34,835
Total operating expenses	14,712	17,131	30,715	31,246	14,602	50,805	45,318	81,706
Loss from operations	(10,280)	(15,674)	(22,966)	(28,350)	(9,803)	(47,682)	(32,770)	(75,696)
Other income (expense):								
Gain on extinguishment of debt	-	-	527	-	-	-	527	-
Interest expense, net	(908)	(17)	(1,668)	(26)	(906)	(21)	(2,576)	(46)
Other income	75	301	312	313				
Other income (expense)					143	(1,379)	458	(1,403)
Total other income (expense)	(833)	284	(829)	287	(763)	(1,400)	(1,591)	(1,449)
Loss before income taxes	(11,113)	(15,390)	(23,795)	(28,063)	(10,566)	(49,082)	(34,361)	(77,145)
Income tax benefit (provision)	-	-	-	-				
Income tax benefit					-	954	-	954
Net loss from continuing operations	(11,113)	(15,390)	(23,795)	(28,063)	(10,566)	(48,128)	(34,361)	(76,191)
Net income from discontinued operations	-	123	-	195	-	94	-	289
Net loss	$ (11,113)	$ (15,267)	$ (23,795)	$ (27,868)	$ (10,566)	$ (48,034)	$ (34,361)	$ (75,902)
Loss per common share from continuing operations - basic and diluted	$ (0.18)	$ (0.33)	$ (0.41)	$ (0.62)	$ (0.16)	$ (0.90)	$ (0.56)	$ (1.58)
Earning per common share discontinued operations - basic and diluted	-	0.00	-	0.00	-	0.00	-	0.01
Loss per common share - basic and diluted	$ (0.18)	$ (0.33)	$ (0.41)	$ (0.62)	$ (0.16)	$ (0.90)	$ (0.56)	$ (1.57)
Weighted average shares outstanding Basic and diluted	61,816,279	47,154,453	58,353,534	45,625,492	66,671,622	53,482,110	61,125,035	48,279,713

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except share amounts)

(Unaudited)

	Shares of Common Stock	Common Stock	Shares of Treasury Stock	Treasury Stock at Cost	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Shares of Common Stock	Common Stock	Shares of Treasury Stock	Treasury Stock at Cost	Additional Paid-In Capital	Acc
Balance as of March 31, 2023	61,030,637	$ 6	91,491	$ (506)	$ 218,157	$ (165,680)	$ 51,977						
Balance as of June 30, 2023								61,952,211	$ 6	91,491	$ (506)	$ 219,218	$

Stock-based compensation	-	-	-	-	1,044	-	1,044	-	-	-	-	1,081	
Issuance upon exercise of stock options	18,000	-	-	-	16	-	16	102,500	-	-	-	127	
Issuance upon vesting of restricted stock units	130,721	-	-	-	-	-	-	183,389	-	-	-	-	
Issuance of common stock upon exercise of pre-funded warrants	772,853	-	-	-	1	-	1						
Shares withheld upon vesting of restricted stock units								(5,017)	-	5,017	(16)	-	
Issuance upon exercise of Series A warrants								31,525	-	-	-	32	
Issuance upon exercise of 2023 Registered Direct Offering Warrants								6,872,853	1	-	-	10,995	
Net loss	-	-	-	-	-	(11,113)	(11,113)	-	-	-	-	-	
Balance as of June 30, 2023	61,952,211	$ 6	91,491	$ (506)	$ 219,218	$ (176,793)	$ 41,925						
Balance as of September 30, 2023								69,137,461	$ 7	96,508	$ (522)	$ 231,453	$
Balance as of March 31, 2022	44,908,417	$ 4	(41,522)	$ (417)	$ 176,348	$ (82,484)	93,451						
Balance as of June 30, 2022								52,621,305	$ 5	(41,522)	$ (417)	$ 197,512	$
Stock-based compensation	-	-	-	-	1,885	-	1,885	-	-	-	-	1,628	
Issuance of common stock pursuant to at the market offering, net	6,870,349	1	-	-	17,273	-	17,274	1,420,261	-	-	-	2,350	
Issuance upon exercise of stock options	6,667	-	-	-	6	-	6	6,000	-	-	-	5	

Issuance upon vesting of restricted stock units	37,206	-	-	-	-	-	-	241,045	-	-	-	-	
Shares issued as part of the STS Acquisition	798,666	-	-	-	2,000	-	2,000						
Net loss	-	-	-	-	-	(15,267)	(15,267)	-	-	-	-	-	
Balance as of June 30, 2022	52,621,305	$ 5	(41,522)	$ (417)	$ 197,512	$ (97,751)	$ 99,349						
Balance as of September 30, 2022								54,288,611	$ 5	(41,522)	$ (417)	$ 201,495	$
Balance as of January 1, 2023	54,405,080	$ 5	41,522	$ (417)	$ 202,747	$ (152,998)	$ 49,337	54,405,080	$ 5	41,522	$ (417)	$ 202,747	$
Stock-based compensation	-	-	-	-	2,156	-	2,156	-	-	-	-	3,237	
Issuance upon exercise of stock options	36,333	-	-	-	31	-	31	138,833	-	-	-	158	
Issuance upon vesting of restricted stock units	687,914	-	-	-	-	-	-	871,303	-	-	-	-	
Fair value allocated to warrants with 2023 Promissory Notes	-	-	-	-	5,125	-	5,125	-	-	-	-	5,125	
Shares withheld upon vesting of restricted stock units	(49,969)	-	49,969	(89)	-	-	(89)	(54,986)	-	54,986	(105)	-	
Issuance of common stock and warrants	6,100,000	1	-	-	9,158	-	9,159						
Issuance upon exercise of Series A warrants								31,525	-	-	-	32	
Issuance of common stock upon exercise of pre-funded warrants	772,853	-	-	-	1	-	1	772,853		-	-	1	
Net proceeds from 2023 Registered Direct Offering								6,100,000	1	-	-	9,158	

Issuance upon exercise of 2023 Registered Direct Offering Warrants								6,872,853	1	-	-	10,995	
Net loss	-	-	-	-	-	(23,795)	(23,795)	-	-	-	-	-	
Balance as of June 30, 2023	61,952,211	$ 6	91,491	$ (506)	$ 219,218	$ (176,793)	$ 41,925						
Balance as of September 30, 2023								69,137,461	$ 7	96,508	$ (522)	$ 231,453	$
Balance as of January 1, 2022	43,987,896	$ 4	(19,361)	$ (319)	$ 171,285	$ (69,883)	$ 101,087	43,987,896	$ 4	(19,361)	$ (319)	$ 171,285	$
Stock-based compensation	-	-	-	-	3,785	-	3,785	-	-	-	-	5,413	
Issuance of common stock pursuant to at the market offering, net	7,598,801	1	-	-	20,407	-	20,408	9,019,062	1	-	-	22,757	
Issuance upon exercise of stock options	19,638	-	-	-	35	-	35	25,638	-	-	-	40	
Issuance upon vesting of restricted stock units	216,304	-	-	-	-	-	-	457,349	-	-	-	-	
Shares withheld upon vesting of restricted stock units	-	-	(22,161)	(98)	-	-	(98)	-	-	(22,161)	(98)	-	
Shares issued as part of the STS Acquisition	798,666	-	-	-	2,000	-	2,000	798,666	-	-	-	2,000	
Net loss	-	-	-	-	-	(27,868)	(27,868)	-	-	-	-	-	
Balance as of June 30, 2022	52,621,305	$ 5	(41,522)	$ (417)	$ 197,512	$ (97,751)	$ 99,349						
Balance as of September 30, 2022								54,288,611	$ 5	(41,522)	$ (417)	$ 201,495	$

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash Flows from Operating Activities:				
Net loss from continuing operations	$ (23,795)	$ (28,063)	$ (34,361)	$ (76,191)
Net income from discontinued operations	-	195	-	289
Net loss	(23,795)	(27,868)	(34,361)	(75,902)
Adjustments to reconcile net loss to net cash used in operating activities:				
Bad debt expense	43	-	133	-
Depreciation	1,859	669	2,688	1,476
Amortization of right-of-use financing lease asset	22	-	146	-
Non-cash operating lease expense	314	216	489	251
Benefit for deferred taxes			-	(954)
Share-based compensation	2,156	3,785	3,237	5,413
Amortization of debt discount	960	2	1,475	2
Goodwill impairment			-	34,835
Amortization of intangible assets	2,073	1,956	3,091	3,001
Impairment of SAFE Agreement	101	-	101	-
Loss due to the remeasurement of the STS Contingent Consideration	91	-	139	-
Loss on the sale of property and equipment	16	-		
Gain on the sale of property and equipment			(23)	-
Gain on extinguishment of debt	(527)	-	(527)	-
Changes in operating assets and liabilities:				
Accounts receivable	(2,508)	(50)	(3,919)	475
Inventory	(1,064)	(1,725)	(1,291)	(1,540)
Other current assets	(194)	(286)	(260)	249
Deposits	12	(293)	21	(290)
Accounts payable, accrued expenses and other current liabilities	885	909	1,335	1,187
Contract liabilities	1,074	(441)	1,971	1,258
Operating lease liability	(718)	228	(1,111)	454
Net cash used in operating activities - continuing operations	(19,200)	(23,093)	(26,666)	(30,374)
Net cash (used in) provided by operating activities - discontinued operations	(449)	267	(449)	284
Net cash used in operating activities	(19,649)	(22,826)	(27,115)	(30,090)
Cash Flows from Investing Activities:				
SAFE Investment	-	(450)	-	(610)
Capital expenditures	(490)	(2,514)	(944)	(3,448)
Proceeds from the Roker SAFE			1,481	-
Proceeds from the sale of property and equipment	14	-	109	-
Cash paid for STS acquisition, net	-	(6,389)	-	(6,389)
Net cash used in investing activities - continuing operations	(476)	(9,353)		
Net cash provided by (used in) investing activities - continuing operations			646	(10,447)
Net cash used in investing activities - discontinued operations	-	(54)	-	(124)
Net cash used in investing activities	(476)	(9,407)		
Net cash provided by (used in) investing activities			646	(10,571)
Cash Flows from Financing Activities:				
Net proceeds 2022 Promissory Notes - related party, exchanged for 2023 Promissory Notes - related party	400	-	400	-
Net proceeds 2023 Promissory Notes	4,000	-	4,000	-
Net proceeds 2023 Promissory Notes - related party	7,100	-	7,100	-
Net proceeds 2023 Registered Direct Offering	9,160	-	9,159	-
Net proceeds from the exercise of the warrants associated with 2023 Registered Direct Offering			10,996	-
Net proceeds from the exercise of the pre-funded warrants			1	
Proceeds from notes receivable	170	170	255	170

Net proceeds from exercise of options	31	35	158	40
Net proceeds from exercise of warrants associated with series A preferred stock			32	-
Repayments of loans payable	(54)	(29)	(80)	(53)
Payments for financing leases	(277)	-	(556)	-
Net proceeds from at-the-market agreement	-	20,408	-	22,758
Repurchases of common stock	(89)	(98)	(105)	(98)
Net cash provided by financing activities	20,441	20,486	31,360	22,817
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents - continuing operations	765	(11,960)	5,340	(18,004)
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents - discontinued operations	(449)	213	(449)	160
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	316	(11,747)	4,891	(17,844)
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	2,468	26,601	2,468	26,601
Cash, cash equivalents and restricted cash and cash equivalents at end of period	$ 2,784	$ 14,854	$ 7,359	$ 8,757
Reconciliation of cash, cash equivalents and restricted cash:				
Cash and cash equivalents at end of period - continuing operations	$ 2,438	$ 13,988	$ 7,034	$ 7,869
Restricted cash and cash equivalents at end of period - continuing operations	346	492	325	502
Cash and cash equivalents at end of period - discontinued operations	-	374	-	386
Cash, cash equivalents and restricted cash and cash equivalents at end of period	$ 2,784	$ 14,854	$ 7,359	$ 8,757

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – GENERAL, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company provides products and services for the collection, distribution and analysis of transportation data and is a global leader in the development and implementation of advanced roadway intelligence infrastructure focused on addressing the world's most critical challenges across transportation management, public safety, and key commercial markets.

With a suite of real-time intelligence platform platforms driven by deep access to data, AI-powered software, years of machine learning 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 June 17, 2022, the Company completed the acquisition of Southern Traffic Services, Inc. ("STS") by acquiring 100% of the issued and outstanding capital stock of STS, which is now a wholly-owned subsidiary of the Company.

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. Amounts for th e the three and six nine months ended June September 30, 2022 , have been reclassified to conform to the current year's presentation.

On June 17, 2022, the Company completed the acquisition of Southern Traffic Services, Inc. ("STS") by acquiring 100% of the issued and outstanding capital stock of STS, which is now a wholly-owned subsidiary of the Company.

These unaudited condensed consolidated interim financial statements of Rekor Systems, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. Accordingly, they do not contain all information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, these unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company's unaudited condensed consolidated financial position as of June September 30, 2023, the unaudited condensed consolidated results of operations, unaudited condensed consolidated statements of shareholders' equity and unaudited condensed consolidated statements of cash flows for the three and six nine months ended June September 30, 2023 and 2022.

The financial data and other information disclosed in these notes are unaudited. The results for the three and six nine months ended June September 30, 2023, are not necessarily indicative of the results to be expected for the year ending December 31, 2023.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP.

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

8

Use of Estimates

The preparation of the unaudited condensed 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

Reclassifications

Certain amounts in the prior year's unaudited condensed consolidated financial statements have been reclassified to conform to the current year's presentation. Amortization related to the Company's right-of-use operating assets is presented as part of general and administrative expenses on the unaudited condensed consolidated statements of operations, whereas in prior periods these amounts were presented as part of depreciation and amortization on the unaudited condensed 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 unaudited condensed consolidated statements of operations, whereas in prior periods, interest income was presented as part of other expense, net on the unaudited condensed consolidated statements of operations. Amounts for the three and six nine months ended June September 30, 2022, have been reclassified to conform to the current period's presentation.

Liquidity and Going Concern

Management will assess has assessed going concern uncertainty in the Company's unaudited condensed consolidated financial statements to determine whether there is sufficient cash on hand, and together with expected capital raises and working capital, to operate assure operations for a period of at least one year from the date the these unaudited condensed 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 has considered various scenarios, forecasts, projections and estimates and will make certain key assumptions. These assumptions include, among other factors, its ability to raise additional capital, 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 and negative operating cashflows since its inception and has relied on cash on hand and external sources of financing to support cash flow from operations. The Company attributes losses to non-capital expenditures related to the scaling of existing products and services, development of new products and service offerings services and marketing efforts associated with these products and services. As of and for the six nine months ended June September 30, 2023, the Company had a working capital deficit from continuing operations of $1,692,000 3,579,000 and a loss from continuing operations of $23,795,000 34,361,000.

Our cash cash increased by $316,000$4,891,000 for the six nine months ended June September 30, 2023 primarily due to external financing which was offset by the loss from continuing operations of $23,795,000. As described in NOTE 13 - *SUBSEQUENT EVENTS*, the Company received aggregate gross proceeds of approximately $10,997,000 as a result of a warrant exercise on July 25, 2023.34,361,000.

9

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 its current level of operations for the next twelve months following the issuance of these unaudited condensed financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

The Company is actively monitoring its operations, the cash on hand and working capital. The Company is currently in the process of reviewing and exploring external financing options in order to sustain its operations. If additional financing is not available, the Company also has contingency plans to continue to reduce or defer expenses and cash outlays should operations weaken in the look-forward period.

Goodwill

The excess purchase consideration over the fair value of acquired assets and liabilities is recorded as goodwill. The Company will assess goodwill for impairment annually, 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. The Company performs its annual impairment assessment on October 1, or more frequently, when events or circumstances indicate impairment may have occurred. As of June September 30, 2023, the Company did not identify any events that would cause it to assess goodwill for impairment.

10

Revenue Recognition

The Company derives its revenues primarily from the licensing and sale of its roadway data and traffic management product and service offerings. These offerings include a mixture of data collection, implementation, engineering, customer support and maintenance services, as well as software and hardware. 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

11

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Recurring revenue	$ 5,772	$ 2,078	$ 9,976	$ 3,773	$ 4,827	$ 4,839	$ 14,803	$ 8,616
Product and service revenue	2,791	1,620	4,772	2,900	4,292	1,939	9,064	4,839
Total revenue	$ 8,563	$ 3,698	$ 14,748	$ 6,673	$ 9,119	$ 6,778	$ 23,867	$ 13,455

Revenues

Recurring revenue

Recurring revenue includes the Company's SaaS revenue, subscription revenue, eCommerce revenue and customer support revenue. The Company generates recurring revenue both from long-term contracts with customers that provide for periodic payments and from 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 implementation 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 recurring revenue from software sales, the Company recognizes point-in-time revenue related to the sale of perpetual software licenses. The Company sells perpetual licenses that 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 has 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 internal 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 provides hardware installation services to customers which range from one to six months. The revenue related to the installation component is recognized over time as the implementation is completed.

Contactless compliance revenues reflect arrangements to provide hardware systems and services 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 customer type (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,				Three Months Ended September 30,		Nine Months Ended September 30,	
	2023		2022		2023		2022		2023	2022	2023	2022
Urban mobility	$	3,574	$	485	$	6,329	$	485	$4,413	$3,504	$10,742	$ 2,077
Traffic management		881		603		1,611		1,310	711	717	2,277	2,027
Licensing and other revenue		4,108		2,610		6,808		4,878	3,995	2,557	10,848	9,351
Total revenue	$	8,563	$	3,698	$	14,748	$	6,673	$9,119	$6,778	$23,867	$13,455

Urban mobility

Urban mobility revenue consists of revenue derived from the Company's roadway data aggregation activities. These activities can 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 Company initiated this platform in June of 2022 and is in the process of deploying it for its existing customers as well as initiating deployments for new customers. 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 traffic data collection 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 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 the remaining term of 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 June September 30, 2023, the Company had approximately $31,774,000unsatisfied portion of the remaining performance obligations not yet satisfied or partially satisfied. obligation was approximately $30,203,000. The Company expects to recognize approximately 73%69% of this amount as revenue over the succeeding twelve months, and the remainder remainder is expected to be recognized over within the next two to four five years thereafter.

13

Unbilled accounts receivable

The timing of revenue recognition, billings and cash collections result in billed accounts receivable, unbilled accounts receivables, and contract liabilities on the unaudited condensed consolidated balance sheets. Billed and unbilled accounts receivable are presented as part of accounts receivable, net, on the unaudited condensed 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 $1,381,000 1,971,000 and $935,000 were included in accounts receivable, net, in the unaudited condensed consolidated balance sheets as of June September 30, 2023 and December 31, 2022, respectively.

Contract liabilities

When the Company advance bills clients prior to providing services, generally such amounts will be earned and recognized in revenue within the next six months to five years, depending on the subscription or licensing period. These assets length of the period during which services are to be provided. This revenue and the corresponding decrease in liabilities are reported on the unaudited condensed consolidated balance sheets is recognized on a contract-by-contract basis at the end of each reporting period and reflected on the unaudited condensed consolidated balance sheet for such period. Changes in the contract asset and liability balances during the six nine months ended June September 30, 2023 were not materially impacted by any other factors. Contract liabilities as of June September 30, 2023 and December 31, 2022 were $5,123,000$6,020,000 and $4,049,000 $4,049,000, res, respectively. pectively. During the six nine months ended June September 30, 2023, $2,092,000 $2,778,000 of the the contract liabilities balance as of December 31, 2022 was recognized as revenue.

The services due for contract liabilities described above are shown below as of June September 30, 2023 (dollars in thousands):

2023, remaining	$	2,600
2024		1,478
2025		632
2026		263
2027		118
Thereafter		32
Total	$	5,123

2023, remaining	$	1,844
2024		2,909
2025		723
2026		337
2027		159
Thereafter		48
Total	$	6,020

Cash and Cash Equivalents, and Restricted Cash and 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 clients. Restricted Restricted cash and cash equivalents for these clients as of June September 30, 2023 and December 31, 2022 were $346,000 325,000 and $254,000, respectively, and correspond to equal amounts of related accounts payable and are presented as part of accounts payable and accrued expenses in the accompanying unaudited condensed consolidated balance sheets.

14

Concentrations of Credit Risk

The Company deposits its temporary cash investments with highly rated financial institutions that are located in the United States and Israel. The United States deposits are federally insured only up to $250,000. As of June September 30, 2023 and December 31, 2022, the Company had deposits from continuing operations totaling $2,784,000$7,359,000 and $2,178,000, respectively, in multiple U.S. financial institutions and one Israeli financial institution.

Customer A accounted for 13% and 12% of the unaudited condensed consolidated revenue for the six three and nine months ended June September 30, 2023 and 13% of the unaudited condensed consolidated revenue for the three months ended September 30, 2022, respectively. Customer B accounted for 10% of the unaudited condensed consolidated revenue for the three months ended September 30, 2023. No other single customer accounted for more than 10% of the Company's unaudited condensed consolidated revenues for the three and six nine months ended June September 30, 2023 and 2022, respectively.

As of June September 30, 2023, Customer B C accounted for 11% 13% of the unaudited condensed consolidated accounts receivable balance. As of December 31, 2022, no single customer accounted for more than 10% of the Company's unaudited condensed consolidated accounts receivable balance.

No other single customer accounted for more than 10% of the Company's unaudited condensed consolidated accounts receivable balance as of June September 30, 2023 and December 31, 2022.

Accounts Payable, Accrued and Other Current Liabilities

As of June September 30, 2023 and December 31, 2022, the Company owed $348,000 $125,000 and $253,000 to its board members, which the Company considers to be related parties, these were presented as part of accounts payable and accrued expenses on the unaudited condensed consolidated balance sheets.

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

	June 30, 2023		December 31, 2022	
Payroll and payroll related	$	2,708	$	2,483
Right of offset to restricted cash		346		243
Other		-		46
Total	$	3,054	$	2,772

	September 30, 2023		December 31, 2022	
Payroll and payroll related	$	3,102	$	2,483
Right of offset to restricted cash		325		243
Other		-		46
Total	$	3,427	$	2,772

Significant Accounting Policies

New Accounting Pronouncements Effective in the Current Period

In June 2016, the FASB issued Accounting Standards Update ("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 began 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, ASU 2016-13 did not have a material impact on its unaudited condensed 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 unaudited condensed consolidated financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

Additional significant accounting policies of the Company are also described in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

NOTE 2 – ACQUISITIONS

STS Acquisition

On June 17, 2022, the Company completed its acquisition of Southern Traffic Services ("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 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 unaudited condensed consolidated statement of operations for the three and six nine months ended June September 30, 2023. As part of the Company's purchase price allocation for the acquisition, the Company recognized $1,977,000 in goodwill, $3,400,000 in customer relationships and $700,000 of marketing related intangible assets related to the STS tradename.

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 unaudited condensed consolidated balance sheets and remeasured remeasured on a quarterly 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 three and six nine months ended June September 30, 2023, the Company recognized $46,000 $48,000 and $91,000, $139,000, respectively, in expense expense related to the remeasurement of the STS Contingent Consideration which is presented with general and administrative expenses on the unaudited condensed 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.

Operations of Combined Entities

The following unaudited pro forma combined financial information gives effect to the acquisition of STS as if it was consummated as of January 1, 2022. 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, 2022 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(Dollars in thousands, except per share data)		(Dollars in thousands except for per share data)		(Dollars in thousands, except per share data)		(Dollars in thousands except for per share data)	
Total revenue from continuing operations	$ 8,563	$ 7,462	$ 14,748	$ 13,043	$ 9,119	$ 6,778	$ 23,867	$ 19,340
Net loss from continuing operations	$ (11,113)	$ (15,876)	$ (23,795)	$ (28,688)	$ (10,566)	$ (48,128)	$ (34,361)	$ (76,864)
Basic and diluted loss per share from continuing operations	$ (0.18)	$ (0.33)	$ (0.41)	$ (0.62)	$ (0.16)	$ (0.90)	$ (0.56)	$ (1.57)
Basic and diluted number of shares	61,816,279	47,882,126	58,353,534	46,388,662	66,671,622	53,482,110	61,125,035	49,078,379

NOTE 3 – INVESTMENTS

Investments in Unconsolidated Companies

In February 2017, the Company contributed substantially all 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 June September 30, 2023 and December 31, 2022 the investment in Global Public Safety had a value of $0.

There have been no distributions or earnings received from this investment.

Roker

In June 2020, the Company announced a joint venture in which the Company acquired a 50% equity interest in a newly formed entity, 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. As of June September 30, 2023 and December 31, 2022 the investment in Roker had a value of $0. Subsequent to the quarter end the Company entered into an agreement to sell substantially all of the assets of Roker. (see NOTE 13 - *SUBSEQUENT EVENTS* for more details).

There have been no distributions or earnings received from either investment.

Roker SAFE

In April 2021, the Company entered into a SAFE with Roker (the "Roker SAFE"). From 2021 through 2022 the Company made multiple investments totaling $2,005,000 in the Roker SAFE. The Roker SAFE allows allowed the Company to participate in future equity financing 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 had 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 was recorded on the cost method of accounting and included under SAFE investment on the unaudited condensed 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. Subsequent to the quarter end substantially all of the assets of Roker were sold which initiated a triggering event related to the Company's SAFE agreements. (see NOTE 13 - *SUBSEQUENT EVENTS*accounting. for more details). During the three second and quarter of six months ended June 30, 2023,, the Company recognized an impairment of $101,000 related to the SAFE that is presented as part of general and administrative expenses in the unaudited condensed consolidated statements of operations.

During the third quarter of 2023, the Company entered into an agreement to sell substantially all of the assets of Roker, which initiated a triggering event related to the Company's SAFE agreements. As result of the triggering event the Company received cash proceeds of $1,904,000 of which includes $423,000 that was held in escrow as of September 30,2023. As of September 30, 2023, the amount held in escrow of $423,000 was presented as part of other current assets, net and deposits on the unaudited condensed consolidated balance sheets.

NOTE 4 – SUPPLEMENTAL NON CASH DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the six nine months ended June September 30, 2023 and 2022 were as follows (dollars in thousands):

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash paid for interest	$ 709	$ -	$ 1,099	$ 26
Cash paid for taxes	5	18	6	22
Decrease in accounts payable and accrued expenses related to purchases of property and equipment	(658)	-	(602)	-
Decrease in accounts payable and accrued expenses related to purchases of inventory	(374)	-	(335)	-
Increase in inventory related to the transfer of property and equipment			(517)	-
Decrease in deposits related to property and equipment received	295	-	293	-
Non-cash investing activities:				
Fair market value of shares issued in connection with the acquisition of STS	-	2,000	-	2,000
Contingent Consideration in connection with the acquisition of STS	-	2,000	-	1,298
Earnout Consideration in connection with the acquisition of STS	-	2,000	-	1,001
Note Consideration in connection with the acquisition of STS	-	2,000	-	2,000
Deferred tax liabilities resulting from purchase accounting adjustments in connection with the acquisition of STS			-	954
Loans issued for property and equipment	-	434	-	460
Non-cash financing activities:				
2022 Promissory Notes exchanged for 2023 Promissory Notes - related party	1,000	-	1,000	-
Warrants issued in connection with the 2023 Promissory Notes	1,640	-	1,640	-
Warrants issued in connection with the 2023 Promissory Notes - related party	3,485	-	3,485	-
New Leases under ASC-842:				
Right-of-use assets obtained in exchange for new finance lease liabilities	939	-	1,650	-
Recognition of operating lease - right-of-use lease asset	-	3,508	343	3,508
Lease incentive recognized in current assets	-	919	-	919
Recognition of operating lease - lease liability	$ -	$ (4,427)	$ (343)	$ (4,427)

NOTE 5 – LEASES

The Company has operating leases for office facilities in various locations throughout the United States and Israel. Additionally, the Company has financing leases for vehicles it uses for its operations throughout the United States. The Company’s leases have remaining terms of one to nine 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.

The following table is is a summary of the components of net lease cost for the period ended June September 30, (2023 dollars and 2022 (dollars in thousands) thousands):

	Three Months Ended June,		Six Months Ended June,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Finance lease cost								
Amortization of right-of-use assets	$ 22	$ -	$ 22	$ -	$ 124	$ -	$ 146	$ -
Interest on lease liabilities	11	-	11	-	33	-	44	-
Operating lease cost	525	501	1,049	909	522	615	1,571	1,524
Total lease cost	$ 558	$ 501	$ 1,082	$ 909	$ 679	$ 615	$ 1,761	$ 1,524

For the three and six nine months ended June September 30, 2023, the Company had $249,000 $446,000 in cash payments related to its financing leases prior to the lease commencement date.

Supplemental balance sheet information related to leases as of June September 30, 2023 and 2022 was as follows (dollars in thousands):

	Year ending June 30, 2023	
	2023	2022
Weighted-average remaining lease term (years)		
Operating leases	8.99	9.73
Financing leases	2.95	-
Weighted-average discount rate		
Operating leases	9 %	9 %
Financing leases	9 %	0 %

	Operating Leases	Financing Leases
2023, remaining	$ 1,175	$ 178
2024	2,305	355
2025	2,280	355
2026	2,243	158
2027	2,302	-
Thereafter	11,094	-
Total lease payments	21,399	1,046
Less imputed interest	6,811	124
Maturities of lease liabilities	$ 14,588	$ 922

	Year ending September 30,	
	2023	2022
Weighted-average remaining lease term (years)		
Operating leases	8.67	9.68
Financing leases	3.03	-
Weighted-average discount rate		
Operating leases	9 %	9 %

Financing leases	9 %	-

Maturities of operating and financing lease liabilities for continuing operations at September 30, 2023 were as follows (dollars in thousands):

	Operating Leases	Financing Leases
2023, remaining	$ 601	$ 155
2024	2,391	619
2025	2,400	619
2026	2,277	354
2027	2,319	68
Thereafter	11,038	-
Total lease payments	21,026	1,815
Less imputed interest	6,488	231
Maturities of lease liabilities	$ 14,538	$ 1,584

NOTE 6 – INTANGIBLE ASSETS AND GOODWILL

The following provides a breakdown of identifiable intangible assets, net as of June September 30, 2023 and December 31, 2022 (dollars (dollars in thousands):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Customer relationships	$ 3,861	$ 3,861	$ 3,861	$ 3,861
Marketing related	1,027	1,027	1,027	1,027
Technology based	24,107	24,107	24,107	24,107
Internally capitalized software	1,236	1,236	1,236	1,236
Total	30,231	30,231	30,231	30,231
Less: accumulated amortization	(11,005)	(8,932)	(12,023)	(8,932)
Identifiable intangible assets from continuing operations, net	$ 19,226	$ 21,299	$ 18,208	$ 21,299

These intangible assets are amortized on a straight-line basis over their estimated useful life. Amortization expense for the three months ended June September 30, 2023 and 2022 was $1,032,000 $1,018,000 and $973,000, respectively, $1,045,000, respectively, and for the six nine months ended June September 30, 2023 and 2022 was $2,073,000 3,091,000 and $1,956,000 3,001,000, respectively and is presented as part of depreciation and amortization in the unaudited condensed consolidated statements of operations. During the current period there have been no events that would cause the Company to reevaluate evaluate its intangible assets. assets for impairment.

As of June September 30, 2023, the estimated impact from annual amortization from intangible assets for each of the next five fiscal years and thereafter is as follows (dollars in thousands):

2023, remaining	$ 1,987
2024	3,841
2025	3,832
2026	3,019
2027	2,744
Thereafter	3,803
Total	$ 19,226
2023, remaining	$ 969
2024	3,841
2025	3,832
2026	3,019
2027	2,744

Thereafter		3,803
Total	$	18,208

NOTE 7 – DEBT

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. As of June September 30, 2023the, the aggregate balance of these notes payable was $2,000,000 of which $1,000,000 was included in notes payable current portion and $1,000,000 was included in notes payable long-term, respectively, in the unaudited condensed consolidated balance sheets.

2022 Promissory Notes

On December 20, 2022, the Company entered into a Promissory Note Agreement (the "2022 Promissory 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, pursuant to which the lenders loaned $1,000,000 to the Company. During the first quarter of 2023, Robert A. Berman invested an additional $400,000 under the same terms as the 2022 Promissory Notes. The lenders were determined to be related parties. No 2022 Promissory Notes remain outstanding, as all 2022 Promissory Notes were exchanged in connection with the private placement of 2023 Promissory Notes described below.

2023 Promissory Notes

On January 18, 2023, the Company entered into a Securities Purchase Agreement (the "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 (the "2023 Promissory Notes"), and (ii) 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. In connection with the initial closing on January 18, 2023, the Company issued $12,500,000 in aggregate principal amount of 2023 Promissory 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. Pursuant to the terms of the Securities Purchase Agreement, the 2022 Promissory Notes were exchanged for equal principal amounts of the 2023 Promissory Notes which are included in the proceeds of $12,500,000. As a result, the 2022 Promissory Notes were exchanged with no further force and effect as of the effective date of the Securities Purchase Agreement.

The 2023 Promissory Notes are a senior secured obligation of the Company and rank senior to all indebtedness of the Company, subject to certain exceptions. The 2023 Promissory 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 Promissory 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 Promissory Notes by redemption at a price equal to (i) 120% of the then-outstanding principal amount under the 2023 Promissory 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 Promissory 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 Promissory 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 Promissory Notes in accordance with the Early Redemption Schedule if the Company undergoes a fundamental change.

The Company determined that the holder redemption and mandatory redemption options would qualify as derivatives and be subject to accounting under ASC Topic 815, *Derivatives and Hedging*. The Company believes that the fair value associated with the embedded derivatives related to the holder and mandatory redemption rights are inconsequential.

The Securities Purchase Agreement contains customary representations and warranties of the Company and the 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 10.51% holder of Common Stock of the Company based on its Schedule 13G filed with the Securities and Exchange Commission on February 14, 2023. 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. These lenders were determined to be related parties. Mr. Berman has an had the option, upon request of the Company made within six months of the initial closing, to invest up to an additional $2,500,000 in a subsequent closing, or series of closings, on the same terms. In aggregate, such subsequent closings may result would have resulted 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. This option was not exercised and has expired as of September 30, 2023.

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 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 2023 Promissory Notes, and such right may not be sold or transferred to any party not affiliated with Arctis. As a result of this right, the Nominations Committee of the Company's Board of Directors has nominated on September 14, 2023, a director designated by Arctis to stand for election was elected by the Company's stockholders at the Company's 2023 annual meeting of stockholders.

The 2023 Promissory Notes impose certain financial 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 2023 Promissory Notes occurs, the investors can elect to redeem the 2023 Promissory 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 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.

21

Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Contractual interest expense, net	$ 392	$ 17	$ 708	$ 24	$ 391	$ 21	$ 1,101	$ 44
Amortization of debt discount	516	-	960	2	515	-	1,475	2
Total interest expense, net	$ 908	$ 17	$ 1,668	$ 26	$ 906	$ 21	$ 2,576	$ 46

22

Schedule of Principal Amounts Due of Debt

The principal amounts due for long-term notes payable are shown below as of June September 30, 2023 (dollars in thousands):

2023, remaining	$ 54	$ 27
2024	1,073	1,073
2025	13,578	13,578
2026	83	83
2027	86	86
Thereafter	27	28
Total	14,901	14,875
Less unamortized debt discount	(4,192)	(3,677)
Total notes payable	$ 10,709	$ 11,198

NOTE 8 – INCOME TAXES

The Company maintains a full valuation allowance against its net deferred taxes, outside of the deferred tax liability related to the indefinite lived intangible, through June September 30, 2023.

The Company files income tax returns in Israel, the United States and in various states. No U.S. Federal, state or foreign income tax audits were in process as of June September 30, 2023.

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

For the three and six nine months ended June September 30, 2023 and 2022, 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 expense. The 2018 2019 through 2021 2022 tax years remain subject to examination by the Internal Revenue Service. As of June September 30, 2023and December 31, 2022, our evaluation revealed no uncertain tax positions that would have a material impact on the unaudited condensed consolidated financial statements.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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.

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 and 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 recorded a reduction to notes payable, the related accrued interest and other assets and liabilities. The Company also cancelled warrants to purchase 631,254 shares of common stock, which were issued in connection with the acquisition of Firestorm.

NOTE 10 – STOCKHOLDERS' EQUITY

2023 Registered Direct Offering

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 "Registered Direct Warrants"). 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 are 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 2023 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 years and an exercise price of $1.8188 per share of common stock.

During the second quarter of 2023, 772,853 of the pre-funded warrants were exercised for 772,853 shares of the Company's common stock.

Subsequent**2023 Letter Agreement**

On July 25,2023, the Company entered into a letter agreement (the "2023 Letter Agreement") with the same institutional investor connected to the period end,2023 Registered Direct Offering, pursuant to which the investor and the Company agreed that the investor would exercise all its Register Direct Warrants for shares of common stock underlying the Registered Direct Warrants at $1.60 per share of common stock. In consideration for exercising the Registered Direct Warrants and in exchange for the imposition of volume and trading restrictions on the 6,872,853 shares of common stock issued to the institutional investor in connection with exercise of the Registered Direct Warrants, the 2023 Letter Agreement provided for the issuance of unregistered warrants to purchase up to an aggregate of 2,850,000 shares of common stock (the "2023 Private Warrants"). The 2023 Private Warrants will expire on January 25,2029 and have an exercise price of $3.25.

During the third quarter of 2023, the institutional investor connected to the 2023 Registered Direct Offering exercised 6,872,853 of the Registered Direct Warrants into an equal number of shares of the Company's common stock. See *NOTE*

The 13 2023 - SUBSEQUENT EVENTS for details Private Warrants were valued using the Black-Scholes pricing model at a total of $6,757,000 based on a five and half year term, volatility of 115%, a risk-free of 4.15%, and stock price of $2.85. The fair value of the transaction.2023 Private Warrants were treated as an equity financing cost and recorded as part of the Company's additional paid-in capital. This resulted in a net zero impact within the Company's additional paid-in capital.

2023 Warrants

In connection with the initial closing of the 2023 Promissory Notes on January 18, 2023, the Company issued warrants to purchase 6,250,000 shares of common stock. The 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. The 2023 Warrants were valued at $5,125,000, at the time of issuance.

The Company estimated the fair value of the warrants using the Black-Scholes pricing model. The use of the Black-Scholes pricing model requires the use of subjective assumptions, including the fair value and projected volatility of the underlying common stock and the expected term of the award. The fair value of each warrant granted has been estimated as of the date of the grant using the Black-Scholes pricing model with the following assumptions:

Risk-free interest rate	3.42 %
Expected term (in years)	5
Volatility	113 %
Dividend yield	0 %
Estimated annual forfeiture rate at the time of grant	0 %

The Company treats the warrants as a debt discount, recorded as a contra-liability against the debt, and amortizes the balance over the life of the underlying debt as interest expense, net in the unaudited condensed consolidated statements of operations.

At-the-Market Offering

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 was entitled to a commission equal to 3.0% of the gross proceeds from each sale. The Company incurred issuance costs of approximately $169,000 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 unaudited condensed consolidated balance sheets.

For the six nine months ended June September 30,2022,the Company sold 7,598,801 9,019,062 shares of common stock at a weighted-average selling price of $2.79 $2.62 per share in accordance with the 2022 Sales Agreement. Net cash provided from the 2022 Sales Agreement was $20,408,000 $22,758,000 after paying $169,000 related to the issuance cost, as well as 3.0% or $635,000 $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 issued798,666 shares of the Company's common stock as part of the consideration.

Warrants

A summary of the warrant activity for the Company for the period ended June September 30, 2023 is as follows:

	Series A Preferred Stock Warrants (1)	Firestorm Warrants (2)	Secure Education Warrants (3)	2018 Public Offering Warrants (4)	2023 Promissory Notes (5)	2023 Registered Direct Offering (6)	Total	Series A Preferred Stock Warrants (1)	Firestorm Warrants (2)	Secure Education Warrants (3)	2018 Public Offering Warrants (4)	2023 Promissory Notes (5)	2023 Regis Direc Offer (6)
Active warrants as of January 1, 2023	41,996	631,254	15,556	3,505	-	-	692,311	41,996	631,254	15,556	3,505	-	
Issued warrants	-	-	-	-	6,250,000	8,126,806	14,376,806	-	-	-	-	6,250,000	8,1
Exercised warrants	-	-	-	-	-	(772,853)	(772,853)	(31,525)	-	-	-	-	(7,6
Expired warrants	-	-	(15,556)	-	-	-	(15,556)	-	-	(15,556)	-	-	
Cancelled warrants	-	(631,254)	-	-	-	-	(631,254)	-	(631,254)	-	-	-	
Outstanding warrants as of June 30, 2023	41,996	-	-	3,505	6,250,000	7,353,953	13,649,454						
Weighted average strike price of outstanding warrants as of June 30, 2023	$ 1.03	$ -	$ -	$ 1.00	$ 2.00	$ 1.61	$ 1.79						
Intrinsic value of outstanding warrants as of June 30, 2023	$ 31,000	$ -	$ -	$ 3,000	$ -	$ 1,218,000	$ 1,252,000						
Outstanding warrants as of September 30, 2023								10,471	-	-	3,505	6,250,000	4

Weighted average strike price of outstanding warrants as of September 30, 2023	$ 1.03	$ -	$ -	$ 1.00	$ 2.00	$
Intrinsic value of outstanding warrants as of September 30, 2023	$ 19,000	$ -	$ -	$ 6,000	$ 5,125,000	$ 4

26

(1) As part of a Regulation A Offering in fiscal years 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. As part of the settlement of the Firestorm litigation, these warrants were cancelled (see *NOTE - 9 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 was 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 January 18, 2023, in connection with the 2023 Promissory Notes, the Company issued the investors warrants to purchase 6,250,000 shares of its common stock, exercisable over a period of five years, at an exercise price of $2.00 per share. These warrants were exercisable commencing January 18, 2023 and expire on January 18, 2028.

(6) On March 23, 2023, in connection with the 2023 Register Direct Offering the Company issued (i) pre-funded warrants exercisable for up to an aggregate of 772,853 shares of common stock, (ii) warrants to purchase up to 6,872,853 shares of common stock, and (iii) warrants to the placement agent to purchase up to 481,100 shares of common stock. The exercise price per share of the warrants was $1.455 and 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. Each warrant for the placement agent is exercisable for one share of common stock at an exercise price of $1.8188 per share. These warrants were exercisable commencing March 27, 2023 and expire on March 27, 2028.

(7) On July 25, 2023, in connection with the 2023 Letter Agreement, the Company issued warrants to purchase 2,850,000 shares of its common stock, exercisable over a period of five and half years, at an exercise price of $3.25 per share. These warrants were exercisable commencing July 25, 2023 and expire on January 25, 2029.

NOTE 11 – EQUITY INCENTIVE PLAN

In August 2017, the Company approved and adopted the 2017 Equity Award Plan (the "2017 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 October 2021, the Company announced it had registered an additional 4,368,733 shares of its common stock available for issuance under the 2017 Plan.

Stock Options

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

Stock compensation expense related to stock options for the three months ended June September 30,2023 and 2022 was $0 and $2,000, respectively, and for the nine months ended September 30, 2023 and 2022 was $0 and $14,000, respectively, and for the six months ended June 30, 2023 and 2022 was $0 and $42,000, $43,000, respectively, and is presented, based on the awardees operating department, as general administrative, selling and marketing and research and development expenses in the unaudited condensed consolidated statements of operations.

A summary of stock option activity under the Company's 2017 Plan for the period ended June September 30, 2023 is as follows:

	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding balance as of January 1, 2023	862,380	$ 1.27	5.29	$ 172,000	862,380	$ 1.27	5.29	$ 172,000
Exercised	(36,333)	0.80			(138,833)	1.12		
Forfeited	-	-			-	-		
Expired	(32,373)	3.44			(32,373)	3.44		
Outstanding balance as of June 30, 2023	793,674	$ 1.21	4.41	$ 509,000				
Exercisable as of June 30, 2023	793,674	$ 1.21	4.41	$ 509,000				
Outstanding balance as of September 30, 2023					691,174	$ 1.20	3.94	$ 1,143,000
Exercisable as of September 30, 2023					691,174	$ 1.20	3.94	$ 1,143,000

As of June September 30, 2023, there was $0 of unrecognized stock compensation expense related to unvested stock options granted under the 2017 Plan.

Restricted Stock Units

Stock compensation expense related to RSU's for the three months ended June 30, 2023 and 2022 was $1,044,000 and $1,871,000, respectively, and for the six months ended June September 30, 2023 and 2022 was $2,156,000 $1,081,000 and $3,743,000, $1,626,000, respectively, and for the nine months ended September 30, 2023 and 2022 was $3,237,000 and $5,370,000, respectively, and is presented, based on the awardees operating department, as general administrative, selling and marketing and research and development expenses in the unaudited condensed consolidated statements of operations.

A summary of RSU activity under the Company's 2017 Plan for the six nine months ended June September 30, 2023 is as follows:

	Number of Shares	Weighted Average Unit Price	Weighted Average Remaining Contractual Term (Years)	Number of Shares	Weighted Average Unit Price	Weighted Average Remaining Contractual Term (Years)
Outstanding balance as of January 1, 2023	1,940,260	$ 5.58	1.81	1,940,260	$ 5.58	1.81
Granted	650,040	1.42	2.42	813,740	1.81	2.07
Vested	(687,914)	4.84	0.94	(871,303)	5.88	0.81
Forfeited	(144,902)	3.74	1.78	(167,266)	3.72	1.56
Outstanding balance as of June 30, 2023	1,757,484	$ 4.48	1.87			
Outstanding balance as of September 30, 2023				1,715,431	$ 3.82	1.71

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

As of June September 30, 2023, there was $5,559,000 $4,977,000 of unrecognized stock compensation expense related to unvested RSUs granted under the 2017 Plan that will be recognized over an average remaining period of 1.87 1.71 years.

NOTE 12 – LOSS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Basic and diluted loss per share								
Net loss from continuing operations	$ (11,113)	$ (15,390)	$ (23,795)	$ (28,063)	$ (10,566)	$ (48,128)	$ (34,361)	$ (76,191)
Net income attributable to shareholders from discontinued operations	-	123	-	195	-	94	-	289
Net loss attributable to shareholders	$ (11,113)	$ (15,267)	$ (23,795)	$ (27,868)	$ (10,566)	$ (48,034)	$ (34,361)	$ (75,902)
Weighted average common shares outstanding - basic and diluted	61,816,279	47,154,453	58,353,534	45,625,492	66,671,622	53,482,110	61,125,035	48,279,713
Basic and diluted loss per share from continuing operations	$ (0.18)	$ (0.33)	$ (0.41)	$ (0.62)	$ (0.16)	$ (0.90)	$ (0.56)	$ (1.58)
Basic and diluted earnings per share from discontinued operations	-	0.00	-	0.00	-	0.00	-	0.01
Basic and diluted loss per share	$ (0.18)	$ (0.33)	$ (0.41)	$ (0.62)	$ (0.16)	$ (0.90)	$ (0.56)	$ (1.57)
Common stock equivalents excluded due to the anti-dilutive effect	16,200,612	4,180,940	16,200,612	4,180,940	12,001,681	3,709,051	12,001,681	3,709,051

As the Company had a net loss for the three and six nine months ended June September 30, 2023, the following 16,200,612 12,001,681 potentially dilutive securities were excluded from diluted loss per share: 13,649,4549,595,076 for outstanding warrants, 793,674691,174 related to outstanding options and 1,757,4841,715,431 related to outstanding RSUs.

As the Company had a net loss for the three and six nine months ended June September 30, 2022, the following 4,180,940 the following 3,709,051 potentially dilutive securities were excluded from diluted loss per share: 692,311 for outstanding warrants, 981,032 960,152 related to outstanding options and 2,507,597 2,056,588 related to outstanding RSUs.

NOTE 13– SUBSEQUENT EVENTS

Roker Sale

On July 25, 2023, a buyer acquired substantially all of the assets of Roker. This was deemed to be a triggering event under the Roker SAFE Agreement. As result of the triggering of the Roker SAFE Agreement, the Company expects to receive substantially of its investment in the Roker SAFE.

Warrant Exercise

On July 25,2023, the Company entered into a letter agreement (the “Letter Agreement”) with the holder (the “Exercising Holder”) of the Registered Direct Warrants to purchase for cash an aggregate of 6,872,853 shares of Common Stock, representing all of the shares of Common Stock underlying the Registered Direct Warrants. Pursuant to the Letter Agreement, the Exercising Holder and the Company agreed that the Exercising Holder would exercise all of its Registered Direct Warrants for shares of Common Stock underlying the Registered Direct Warrants (the “Exercised Shares”) at $1.60 per share of Common Stock. In consideration for exercising the Registered Direct Warrants, the Letter Agreement provides for the issuance of new warrants to purchase up to an aggregate of 2,850,000 shares of Common Stock (the “New Warrants”). The New Warrants terminate on January 25,2029, and are exercisable after issuance only for cash, subject to exception if the shares of Common Stock underlying the New Warrants are not registered in accordance with the terms of the Letter Agreement. The New Warrants have an exercise price of $3.25 per share.

The New Warrants and the shares of Common Stock issuable upon the exercise of the New Warrants are not being registered under the Securities Act of 1933, and are being offered pursuant to the exemption provided in Section 4(a)(2) under the Securities Act. The Exercised Shares are registered for resale on an effective registration statement previously filed by the Company with the SEC.

The Company has received aggregate gross proceeds of $10,997,000 from the exercise of the Registered Direct Warrants by the Exercising Holder and issue an aggregate of 6,872,853 shares of Common Stock and New Warrants to purchase an aggregate of up to 2,850,000 shares of Common Stock to the Exercising Holder.

ITEM 2.*MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (the "Quarterly Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties including particularly statements regarding our future results of operations and financial position, business strategy, prospective products and services, timing and likelihood of success, plans and objectives of management for future operations, and future results of current and anticipated products and services. These statements involve uncertainties, such as known and unknown risks, and are dependent on other important factors that may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements we express or imply. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other similar expressions. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties, and assumptions described under the sections in our Annual Report on Form 10-K for the year ended December 31, 2022December 31, 2022, entitled "Risk Factors" and elsewhere in this Quarterly Report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Form 10-Q and in other documents we file from time to time with the Securities and Exchange Commission (the "SEC") that disclose risks and uncertainties that may affect our business. The forward-looking statements in this Form 10-Q do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of the date of this filing. 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, you should not rely on these forward-looking statements as predictions of future events. We undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise.

Specific factors that might cause actual results to differ from our expectations include, but are not limited to:

- significant risks, uncertainties and other considerations discussed in this report;
- operating risks, including supply chain, equipment or system failures, cyber and other malicious attacks and other events that could affect the amounts and timing of revenues and expenses;
- reputational risks affecting customer confidence or willingness to do business with us;
- financial market conditions,, including the continuation of significant national and global uncertainties that may affect these conditions, and and the results of financing efforts;
- our ability to successfully identify, integrate and complete acquisitions and dispositions, including the integration of the STS Acquisition;
- our continued ability to successfully access the public markets for debt or equity capital;
- political, legal, regulatory, governmental, administrative and economic conditions and developments in the United States ("U.S.") and other countries in which we operate and, in particular, the impact of recent and future federal, state and local regulatory proceedings and changes, including legislative and regulatory initiatives associated with our products;
- current and future litigation;
- competition from other companies with an established position in the markets we have recently entered or are seeking to enter or from other companies who are seeking to enter markets we already serve;
- our failure to successfully develop products using our technology that are accepted by the markets we serve or intend to serve or the development of new technologies that change the nature of our business or provide our customers with products or services superior to or less expensive than ours;
- the inability of our strategic plans and goals to expand our geographic markets, customer base and product and service offerings;
- risks associated with pandemics and other global health emergencies, such as the spread of a novel strain of coronavirus ("COVID-19") around the world since the first quarter of 2020 which has caused significant volatility in U.S. and international markets and has created 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; and
- risks associated with cyberattacks on international, national, local and Company information infrastructure by rogue businesses or criminal elements or by agents of governments engaged in asymmetric disruptions for competitive, economic, or military reasons.

Investors are cautioned that these forward-looking statements are inherently uncertain. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. Other than as required by law, we undertake no obligation to update forward-looking statements even though our situation may change in the future. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and related notes included elsewhere in this report and the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2022December 31, 2022 (the “2022“2022 Annual Report”) and any updates contained herein as well as those set forth in our reports and other filings made with the SEC.

General

Overview

Rekor’s mission Rekor is 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 public safety, urban mobility, and transportation management worldwide with our cutting-edge, worldwide. Our AI-driven solutions have been tailored specifically to the unique needs of each. Our commitment to delivering mission-critical solutions for roadway intelligence is driven by our vision customer base in each of creating smarter, safer, and more sustainable streets for all communities. To achieve this vision, we strive these areas. We are working to collect, connect, and organize the world's mobility data, harnessing its full potential to provide in real-time the most essential, actionable and predictive mobility insights. Our innovative approach is designed to make roadway mobility data readily accessible and useful, 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”).

Roadway Intelligence

Rekor has been dedicated to being become a leader in roadway intelligence by collecting, connecting, and organizing global mobility data since its inception. Today, our comprehensive portfolio of products and services offers multiple cutting-edge Internet of Things ("IoT") devices for roadside data collection, a vast an array of curated and integrated data sets from a network of transportation ecosystem data providers, tailored as well as platforms, applications, and data streams. streams that have been tailored for use by a demanding customer base consisting of federal state and local government agencies and large corporate clients.

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 various 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 environment. 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, communications and data 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. The Our Rekor One™ roadway intelligence engine is purpose-built to be a single source of truth, powered by AI and fueled by rich data and powered by AI. data. 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 platforms facilitate the efficient collection, analysis, and distribution of vast amounts of data, unlocking real-time and predictive operational insights like never before. that have previously been unavailable. 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 Our Rekor One roadway intelligence engine. It is through this engine that we allows us to deliver a range of solutions that serve government and commercial customers in the public safety, urban mobility and transportation management areas. Within the Rekor One environment, 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: 1) traffic reports, including real-time incident detection and response, data driven traffic operations and traffic management, proactive traffic calming around events, counts showing Federal Highway Administration ("FHWA") mandated vehicle classification, counts, classifications and speed, collection and reporting, analytics for bicycle, pedestrians, and other micromobility modes, as well as patterns and hot spots for greenhouse gas emissions, 2) data driven traffic operations and traffic management, real-time incident detection and response, including proactive traffic calming around events, and 3) high-definition ("HD") video management and traffic surveillance, to assist law enforcement and support intelligence-based policing, citation management, including 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.

The Road Ahead

We find ourselves at a pivotal moment in history, where governments are The United States government is investing heavily in upgrading and digitizing the nation's 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 We are not simply aspirations, but active pursuits we are currently actively engaged in as a technology company that provides providing 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 We are dedicated to delivering mission-critical solutions is propelled by our vision of helping that help to create intelligent, secure, and sustainable streets for all communities. The ultimate objective is for Rekor to be the foundation of a digital-enabled foundational partner in building a digitally-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.

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:

- *New Efficiencies and Expanded Uses for Roadway Intelligence* – The suite of products and services that we have developed makes use of recent technological developments that significantly lower the cost of existing roadway deployments. These technological developments include the development of improved graphic processing units ("GPU's") that feature greater bandwidth and are structured to facilitate parallel processing of larger blocks of data, improvements in cellular technologies that we can take advantage of through more efficient edge processing techniques. Our systems have also been designed to address developments in cellular communications networks 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. The reduced cost and additional capabilities realized as a result of these technological developments have also enabled us to deliver products and services that were previously either unavailable or available only at prohibitive cost. Although our customer base is currently anchored by large government institutions and commercial enterprises, we currently also serve many users who could not afford the cost, or adapt to the restrictions of, conventional systems. These include smaller municipalities, homeowners' associations, and smaller businesses finding new applications for our software and hardware.
- *AI for Infrastructure* – We have been able to develop applications of AI that improve the analysis of conditions on roadways and significantly affect the safety and efficiency of travel. As vehicles move towards further automation, we expect there to be a growing 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. Businesses 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. Connected vehicle sensors can provide important information related to hazardous conditions, speed variations, intersection performance, and more. This data is a resource that we are using to help transportation and other agencies 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.

- *Growing Smart City Market*– We 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. 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. 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 Contactless Compliance Programs* – 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 We have previously 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 –With increasing needs for resources, government agencies need increasingly affordable, effective, and scalable solutions for revenue recovery and discovery. solutions. With subscription pricing and an intelligent infrastructure platform approach 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 are looking 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 benefitting 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.

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 include a mixture of data collection, implementation, engineering, customer support and maintenance services as well as software and hardware. 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 they incur.

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, legal, 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.

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 settlements, 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 Provision

Income tax provision consists primarily of 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.

Critical Accounting Estimates and Assumptions

A comprehensive discussion of our critical accounting estimates and assumptions is included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended December 31, 2022December 31, 2022.

New Accounting Pronouncements

See Note 1 to our unaudited condensed consolidated financial statements set forth in Item 1 of this quarterly report for information regarding new accounting pronouncements.

Results of Operations

Our historical operating results in dollars are presented below. This analysis of operation is solely related to continuing operations and does not consider the results of discontinued operations.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	$ 8,563	$ 3,698	$ 14,748	$ 6,673	$ 9,119	$ 6,778	$ 23,867	$ 13,455
Cost of revenue, excluding depreciation and amortization	4,131	2,241	6,999	3,777	4,320	3,655	11,319	7,445
Operating expenses:								
General and administrative expenses	5,873	8,272	13,078	15,802	6,871	6,775	19,941	22,232
Selling and marketing expenses	2,053	2,649	3,943	3,958	1,498	2,432	5,441	6,390
Research and development expenses	4,783	4,727	9,740	8,861	4,270	4,911	14,011	13,772
Depreciation and amortization	2,003	1,483	3,954	2,625	1,963	1,852	5,925	4,477
Goodwill impairment					-	34,835	-	34,835
Total operating expenses	14,712	17,131	30,715	31,246	14,602	50,805	45,318	81,706
Loss from operations	(10,280)	(15,674)	(22,966)	(28,350)	(9,803)	(47,682)	(32,770)	(75,696)
Other income (expense):								
Gain on extinguishment of debt	-	-	527	-	-	-	527	-
Interest expense, net	(908)	(17)	(1,668)	(26)	(906)	(21)	(2,576)	(46)
Other income	75	301	312	313				
Other income (expense)					143	(1,379)	458	(1,403)
Total other income (expense)	(833)	284	(829)	287	(763)	(1,400)	(1,591)	(1,449)
Net loss from continuing operations	$ (11,113)	$ (15,390)	$ (23,795)	$ (28,063)				
Loss before income taxes					$ (10,566)	$ (49,082)	$ (34,361)	$ (77,145)

Comparison of the Three and Six Nine Months Ended June 30, 2023September 30, 2023 and the Three and Six Nine Months Ended June 30, 2022 September 30, 2022

Total Revenue

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change		Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2023**	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**
Revenue	$ 8,563	$ 3,698	$ 4,865	132 %	$ 14,748	$ 6,673	$ 8,075	121 %	$ 9,119	$ 6,778	$ 2,341	35 %	$ 23,867	$ 13,455	$ 10,412	77 %

The increase in revenue for the three and six nine months ended June 30, 2023 September 30, 2023, compared to the three and six nine months ended June 30, 2022 September 30, 2022, was primarily attributable to our acquisition of STS in June 2022. During the three and six nine months ended June 30, 2023 September 30, 2023, revenue attributable to our acquisition of STS was $3,574,000 and $6,327,000, respectively. $10,740,000, compared to $3,990,000 for the nine months ended September 30, 2022.

The other main driver of revenue growth during three and nine months ended September 30, 2023, compared to the year three and nine months ended September 30, 2022 was attributable to sales of the Company's software which increased for the three and six months ended June 30, 2023, compared to the three and six months ended June 30, 2022, as a result of the Company's go to market strategy and its expanded customer base. contactless compliance program which both increased in revenue.

Cost of Revenue, Excluding Depreciation and Amortization

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change		Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands)	2023	2022	$	%	2023	2022	$	%	2023	2022	$	%	2023	2022	$	%
Cost of revenue, excluding depreciation and amortization	$ 4,131	$ 2,241	$ 1,890	84 %	$ 6,999	$ 3,777	$ 3,222	85 %	$ 4,320	$ 3,655	$ 665	18 %	$ 11,319	$ 7,445	$ 3,874	52 %

For the three and six nine months ended June 30, 2023September 30, 2023, 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 increase in revenue.

Operating Expenses

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change		Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands)	2023	2022	$	%	2023	2022	$	%	2023	2022	$	%	2023	2022	$	%
Operating expenses:																
General and administrative expenses	$ 5,873	$ 8,272	$ (2,399)	-29 %	$ 13,078	$ 15,802	$ (2,724)	-17 %	$ 6,871	$ 6,775	$ 96	1 %	$ 19,941	$ 22,232	$ (2,291)	-10 %
Selling and marketing expenses	2,053	2,649	(596)	-22 %	3,943	3,958	(15)	0 %	1,498	2,432	(934)	-38 %	5,441	6,390	(949)	-15 %
Research and development expenses	4,783	4,727	56	1 %	9,740	8,861	879	10 %	4,270	4,911	(641)	-13 %	14,011	13,772	239	2 %
Depreciation and amortization	2,003	1,483	520	35 %	3,954	2,625	1,329	51 %	1,963	1,852	111	6 %	5,925	4,477	1,448	32 %
Goodwill impairment									-	34,835	(34,835)	-100 %	-	34,835	(34,835)	-100 %
Total operating expenses	$ 14,712	$ 17,131	$ (2,419)	-14 %	$ 30,715	$ 31,246	$ (531)	-2 %	$ 14,602	$ 50,805	$ (36,203)	-71 %	$ 45,318	$ 81,706	$ (36,388)	-45 %

General and Administrative Expenses

General and administrative expenses during the three months ended September 30, 2023, compared to the three months ended September 30, 2022, remained consistent period over period.

The decrease in general and administrative expenses during the three nine months ended June 30, 2023September 30, 2023, compared to the three nine months ended June 30, 2022September 30, 2022, was primarily due to a $1,505,000 $3,458,000 decrease in personnel costs which was primarily related to a decrease in bonus payroll and payroll related expenses, as well as share-based compensation expense expense. This decrease was partially offset by a $429,000 increase in our insurance expenses.

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Selling and a $1,513,000 decrease in professional services which was primarily related to fees associated with our acquisition of STS in 2022. Marketing Expenses

The decrease in general selling and administrative marketing expenses during the six three months ended June 30, 2023 September 30, 2023, compared to the six three months ended June 30, 2022 September 30, 2022, was primarily due to a $2,590,000 $645,000 decrease in personnel costs which was primarily related to a decrease in bonus payroll and share-based compensation expense. payroll related expenses.

The additional expenses related to our acquisition of STS in 2022 were more than offset by an overall decrease in personnel costs during the three and six months ended June 30, 2023.

Selling and Marketing Expenses

The decrease in selling and marketing expenses during the three nine months ended June 30, 2023September 30, 2023, compared to the three nine months ended June 30, 2022September 30, 2022, was attributable mainly primarily due to a $551,000 decrease in personnel costs which was primarily related to a decrease in share-based compensation expense. payroll and payroll related expenses. Additionally, there was a $267,000 decrease in advertising expenses.

Selling and marketing expenses during the six months ended June 30, 2023, compared to the six months ended June 30, 2022, remained consistent period over period.

Research and Development Expense

Research The decrease in research and development expenses during the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022, was primarily due to a $427,000 decrease in personnel costs which was primarily related to a decrease in payroll and payroll related expenses.

Research and development expenses during the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, remained consistent period over period.

Goodwill Impairment

The increase During the third quarter of 2022, we experienced a significant decline in research 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 development expenses during determined that as of the six months ended June 30, 2023, compared reporting date we had an impairment related to goodwill in the six months ended June 30, 2022, was primarily attributable to development expenses as we completed and began production deployment amount of our count, class and speed application. For the six months ended June 30, 2023, there was an increase in staffing to develop new products which led to a $923,000 increase in personnel costs. $34,835,000.

Depreciation and Amortization

The increase in depreciation and amortization during the period is attributable primarily to the increased technology-based intangible assets that were acquired as part of our acquisition of STS.

Other Income (Expense)

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change		Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2023**	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**
Other income (expense):																
Gain on extinguishment of debt	$ -	$ -	$ -	-	$ 527	$ -	$ 527	100 %	$ -	$ -	$ -	-	$ 527	$ -	$ 527	100 %
Interest expense, net	(908)	(17)	(891)	-5241 %	(1,668)	(26)	(1,642)	-6315 %	(906)	(21)	(885)	4214 %	(2,576)	(46)	(2,530)	5500 %
Other income	75	301	(226)	-75 %	312	313	(1)	0 %								
Other income (expense)									143	(1,379)	1,522	110 %	458	(1,403)	1,861	133 %

Total other income (expense)	$ (833)	$ 284	$ (1,117)	-393%	$ (829)	$ 287	$ (1,116)	-389%	$(763)	$(1,400)	$ 637	46%	$(1,591)	$(1,449)	$ (142)	-10%

Interest expense increased period over period due to the issuance of the 2023 Promissory notes.

Gain on extinguishment of debt is a result of the settlement agreement in the Firestorm litigation. As part of the settlement, we recorded a reduction to notes payable, the related accrued interest and other assets and liabilities which were part of the Firestorm entities.

Other income (expense) increased in the current period compared to the prior period as a result of a legal settlement.

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) merger and acquisition transaction costs and (vii) 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):

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net loss from continuing operations	$ (11,113)	$ (15,390)	$ (23,795)	$ (28,063)	$ (10,566)	$ (48,128)	$ (34,361)	$ (76,191)
Income taxes	-	-	-	-	-	(954)	-	(954)
Interest	908	17	1,668	26	906	21	2,576	46
Depreciation and amortization	2,003	1,483	3,954	2,625	1,963	1,852	5,925	4,477
EBITDA	$ (8,202)	$ (13,890)	$ (18,173)	$ (25,412)	$ (7,697)	$ (47,209)	$ (25,860)	$ (72,622)
Share-based compensation	$ 1,044	$ 1,885	$ 2,156	$ 3,785	$ 1,081	$ 1,628	$ 3,237	$ 5,413
Goodwill impairment					-	34,835	-	34,835
Gain on extinguishment of debt	-	-	(527)	-	-	-	(527)	-
Adjusted EBITDA	$ (7,158)	$ (12,005)	$ (16,544)	$ (21,627)	$ (6,616)	$ (10,746)	$ (23,150)	$ (32,374)

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 continue to improve over time to the extent that we can gain efficiencies through the adoption of our technology and successfully cross-sell and upsell our current and future offerings. However, our ability to improve Adjusted Gross Margin over time 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:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(Dollars in thousands, except percentages)		(Dollars in thousands, except percentages)		(Dollars in thousands, except percentages)		(Dollars in thousands, except percentages)	
Revenue	$ 8,563	$ 3,698	$ 14,748	$ 6,673	$ 9,119	$ 6,778	$ 23,867	$ 13,455
Cost of revenue, excluding depreciation and amortization	4,131	2,241	6,999	3,777	4,320	3,655	11,319	7,445
Adjusted Gross Profit	$ 4,432	$ 1,457	$ 7,749	$ 2,896	$ 4,799	$ 3,123	$ 12,548	$ 6,010
Adjusted Gross Margin	51.8 %	39.4 %	52.5 %	43.4 %	52.6 %	46.1 %	52.6 %	44.7 %

Adjusted Gross Margin for the three and six nine months ended June 30, 2023 September 30, 2023 increased compared to the three and six nine months ended June 30, 2022 September 30, 2022. As the Company continues to scale and standardize it product offerings it has begun to realize operational efficiencies that have resulted in an improved Adjusted Gross Margin. Additionally, during the three and six nine months ended June 30, 2023September 30, 2023, the Company had a higher mix of software sales which typically carry a higher Adjusted Gross Margin.

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 Growth

As part of the ongoing development of our selling strategy, we have been focusing on sales that employ 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 recurring revenue model and revenue retention rates provide significant visibility into our future operating results and cash flow from operations. This visibility enables us to better manage and invest in our business. The following table sets forth our recurring revenue for the periods included:

	Three Months Ended June 30,		**Change**		**Six Months Ended June 30,**		**Change**	
	2023	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**
Recurring revenue	$ 5,772	$ 2,078	$ 3,694	178 %	$ 9,976	$ 3,773	$ 6,203	164 %

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	$	%	2023	2022	$	%
Recurring revenue	$ 4,827	$ 4,839	$ (12)	0 %	$ 14,803	$ 8,616	$ 6,187	72 %

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 the integrated suite of products and services powered by our Rekor One™ engine.

Total Contract Value

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.

The following table presents a summary of total contract value (dollars in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2023	2022	$	%	2023	2022	$	%
Total Contract Value	$ 17,643	$ 3,454	$ 14,189	411 %	$ 29,726	$ 4,979	$ 24,747	497 %

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	$	%	2023	2022	$	%
Total Contract Value	$ 8,400	$ 4,839	$ 3,561	74 %	$ 38,126	$ 8,616	$ 29,510	343 %

The increase in total contract value is primarily related to large statewide contracts that closed across all three customer markets.

Performance Obligations

As of June 30, 2023September 30, 2023, we had approximately $31,774,000$30,203,000 of contracts that were closed prior to June 30, 2023September 30, 2023 but have a contractual period beyond June 30, 2023September 30, 2023. This represents an increase of $10,362,000$8,791,000 or 48%41% compared to $21,412,000$21,412,000 of performance obligations as of December 31, 2022. These contracts generally cover a term of one to five years, in which the Company will recognize revenue ratably over the contract term. We currently expect to recognize approximately 69%73% 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.

The increase in total performance obligations is primarily related to our acquisition of STS.

Lease Obligations

As of June 30, 2023September 30, 2023, we had material leased building space at the following locations in the U.S. and Israel:

- 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 following table sets forth the components of our cash flows from continuing operations for the period periods included (dollars in thousands):

	Six Months Ended June 30,				Nine Months Ended September 30,			
	2023	2022	Change		2023	2022	Change	
			$	%			$	%
Net cash used in operating activities	$ (19,200)	$ (23,093)	$ 3,893	17%	$(26,666)	$(30,374)	$ 3,708	12%
Net cash used in investing activities	(476)	(9,353)	8,877	95%				
Net cash provided by (used in) investing activities					646	(10,447)	11,093	106%
Net cash provided by financing activities	20,441	20,486	(45)	0%	31,360	22,817	8,543	37%
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	$ 765	$ (11,960)	$ 12,725	106%	$ 5,340	$(18,004)	$23,344	130%

Net cash used in operating activities for the six nine months ended June 30, 2023September 30, 2023 had a decrease of $3,893,000, $3,708,000, which was primarily attributable to the decrease of $4,268,000 reductions in the loss expenses from continuing operations.

The net decrease in net cash used in investing activities of $8,877,000$11,093,000 was primarily due to a decrease in the outflow of funds used for capital expenditures. Additionally, during during the six nine months ended June 30, 2022 September 30, 2022, the Company had net cash outflows of $6,389,000 related to the acquisition of STS.

Net cash provided by financing activities for the six nine months ended June 30, 2023 decreased September 30, 2023 increased by $45,000$8,543,000 from the prior sixnine month period ended June 30, 2022September 30, 2022. During the six nine months ended June 30, 2023September 30, 2023, as part of our 2023 Promissory Notes and the 2023 Registered Direct Offering, we received net proceeds of $11,100,000 and $9,160,000, $9,159,000, respectively. Additionally, in the third quarter of 2023, we received gross proceeds of $10,996,000 related to the exercise of warrants associated to the 2023 Registered Direct Offering. In the prior comparable quarterly period, through our 2022 Sales Agreement, we received net proceeds, after deducting the underwriting discounts and commissions and offering expenses payable by us, of $20,408,000.$22,758,000.

For the three and six nine months ended June 30, 2023 September 30, 2023 and 2022,, we funded our operations primarily through cash from operating activities, the issuance of debt and the sale of equity. As of June 30, 2023September 30, 2023, we had cash and cash equivalents from continuing operations of $2,784,000$7,359,000 and a working capital deficit of $1,692,000, $3,579,000, as compared to cash and cash equivalents of $2,178,000$2,178,000 and a working capital deficit of $6,010,000$6,010,000 as of December 31, 2022December 31, 2022.

Liquidity

We will assess going concern uncertainty in our unaudited condensed consolidated financial statements to determine whether there is sufficient cash on hand, capital raises and working capital, to operate for a period of at least one year from the date the unaudited condensed 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 us, we 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, the expected timing and nature of our programs and projected cash expenditures and its ability to delay or curtail these programs or expenditures to the extent we have the proper authority to do so and consider probable that those implementations can be achieved within the look-forward period.

We have generated losses since our inception and have relied on cash on hand and external sources of financing to support cash flow from operations. We attribute 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 six nine months ended June 30, 2023September 30, 2023, we had a working capital deficit from continuing operations of $1,692,000$3,579,000 and a loss from continuing operations of $23,795,000.$34,361,000.

Our cash increased by $316,000$4,891,000 for the six nine months ended June 30, 2023September 30, 2023 primarily due to external financing which was offset by the loss from continuing operations of $23,795,000. As described in *NOTE 13-SUBSEQUENT EVENTS* to the financial statements included in Item 1 hereof, the Company received aggregate gross proceeds of approximately $10,997,000 as a result of a warrant exercise on July 25, 2023. $34,361,000.

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 these unaudited condensed financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

The Company is actively monitoring its operations, the cash on hand and working capital. The Company is currently in the process of reviewing external financing options in order to sustain its operations. During the third quarter of 2022 and the first quarter of 2023, the Company implemented strategic expense reductions in certain areas to better align its operations with near term revenue generating opportunities. If additional financing is not available, the Company has contingency plans to further reduce or defer expenses and cash outlays in the look-forward period.

2023 Promissory Notes with Warrants

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.

2023 Registered Public Offering

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.

During the third quarter of 2023, the institutional investor connected to the 2023 Registered Direct Offering exercised 6,872,853 of the Registered Direct Warrants into an equal number of shares of the Company's common stock. The Company received gross proceeds from the exercise of the Registered Direct Warrants of approximately $10,996,000.
As of June 30, 2023September 30, 2023, we did not have any material commitments for capital expenditures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, Rekor is not required to provide the information required by Item 3.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation 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 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 as of June 30, 2023September 30, 2023.

Changes to Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. 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 recorded a reduction to notes payable, the related accrued interest and other assets and liabilities already presented as discontinued operations. The Company also cancelled warrants to purchase 631,254 shares of common stock, which were issued in connection with the acquisition of Firestorm.

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.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in "Risk Factors" in our Annual Report on Form 10-K as filed with the SEC on March 31, 2022. We encourage investors to review the risk factors and uncertainties relating to our business disclosed in that Form 10-K, as well as those contained in Part 1, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, above.

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

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.

2023 Promissory 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 proceeds have been primarily used for 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.

New Registered Direct Warrants

On July 25, 2023, we entered into a letter agreement with an institutional investor in connection with the Registered Direct Warrants. Pursuant to the letter agreement, we agreed to issue to the institutional investor 2,850,000 unregistered warrants (the "2023 Private Warrants") to purchase shares of our common stock in exchange for the imposition of volume and trading restrictions on the 6,872,853 shares of common stock issued to the institutional investor in connection with exercise of the 2023 Private Warrants. The 2023 Private Warrants terminate on January 25, 2029, and are exercisable after issuance only for cash. The 2023 Private Warrants have an exercise price of $3.25 per share. The shares of common stock underlying the 2023 Private Warrants have been registered for resale on Form S-3.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

		Incorporated by Reference				Filed/Furnished
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Herewith
3.1	Amended and Restated Certificate of Incorporation of Rekor Systems, Inc (formerly known as 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 Amended and Restated Certificate of Incorporation of Rekor Systems, Inc. as filed with the Secretary of State of Delaware on April 30, 2019.	8-K	001-38338	3.1	4/30/19	
3.3	Second Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Rekor Systems, Inc. as filed with the Secretary of State of Delaware on March 18, 2020.	8-K	001-38338	3.1	3/18/20	
3.4	Amended and Restated Bylaws of Rekor Systems, Inc.	8-K	001-38338	3.2	12/15/21	
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 (embedded within the Inline XBRL and contained in Exhibit 101)					

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Rekor Systems, Inc.

By:	*/s/ Robert A. Berman*
Name:	Robert A. Berman
Title:	Chief Executive Officer Principal Executive Officer
Date:	August November 14, 2023

By:	*/s/ Eyal Hen*
Name:	Eyal Hen
Title:	Chief Financial Officer Principal Financial and Accounting Officer
Date:	August November 14, 2023

47

EXHIBIT 31.1

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 Quarterly Report on Form 10-Q 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: August 14, 2023 November 14, 2023

/s/ Robert A. Berman

Robert A. Berman

Chief Executive Officer

Principal Executive Officer

EXHIBIT 31.2

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 Quarterly Report on Form 10-Q 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: August 14, 2023 November 14, 2023

/s/ Eyal Hen

Eyal Hen

Chief Financial Officer and
Principal Financial and Accounting Officer

EXHIBIT 32.1

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

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that the Quarterly Report of Rekor Systems, Inc. (the "Company") on Form 10-Q for the period ended June September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2023 November 14, 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.

EXHIBIT 32.2

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 Quarterly Report of Rekor Systems, Inc. (the "Company") on Form 10-Q for the period ended June September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2023 November 14, 2023

/s/ Eyal Hen

Eyal Hen

Chief Financial Officer and
Principal Financial and Accounting 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.

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