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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

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 May 15, 2024, the Registrant had 85,358,252 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, 2023 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 MARCH 31, 2024

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2024 (Unaudited)	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,881	$ 15,385
Restricted cash and cash equivalents	386	328
Accounts receivable, net	7,542	4,955
Inventory	3,754	3,058
Note receivable, current portion	368	340
Other current assets	1,632	1,270
Total current assets	25,563	25,336
Long-term assets		
Property and equipment, net	13,876	13,188
Right-of-use operating lease assets, net	9,634	9,584
Right-of-use financing lease assets, net	1,866	1,989
Goodwill	24,161	20,593
Intangible assets, net	28,167	17,239
Note receivable, long-term	397	482
Deposits	3,486	3,740
Total long-term assets	81,587	66,815
Total assets	$ 107,150	$ 92,151
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	6,905	5,139
Notes payable, current portion	1,000	1,000
Loan payable, current portion	76	75
Lease liability operating, short-term	1,377	1,261
Lease liability financing, short-term	569	547
Contract liabilities	4,635	3,604
Other current liabilities	5,760	5,610
Total current liabilities	20,322	17,236
Long-term Liabilities		
Notes payable, long-term	1,000	1,000
2023 Promissory Notes, net of debt discount of $ 0 and $1,012, respectively	-	2,988
2023 Promissory Notes - related party, net of debt discount of $ 0 and $2,149, respectively	-	6,351
Series A Prime Revenue Sharing Notes, net of debt discount of $ 409 and $447, respectively	9,591	9,553
Series A Prime Revenue Sharing Notes - related party, net of debt discount of $ 205 and $223, respectively	4,795	4,777
Loan payable, long-term	253	273
Lease liability operating, long-term	13,216	13,445
Lease liability financing, long-term	948	1,057
Contract liabilities, long-term	1,414	1,449
Deferred tax liability	65	65
Other non-current liabilities	587	587
Total long-term liabilities	31,869	41,545
Total liabilities	52,191	58,781
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 2,000,000 authorized, 505,000 shares designated as Series A and 240,861 shares designated as Series B as of March 31, 2024 and December 31, 2023, respectively. No preferred stock was issued or outstanding as of March 31, 2024 or December 31, 2023, respectively.	-	-
Common stock, $0.0001 par value; authorized; 300,000,000 shares; issued: 85,479,571 shares as of March 31, 2024 and 69,273,334 as of December 31, 2023; outstanding: 85,324,918 shares as of March 31, 2024 and 69,176,826 as of December 31, 2023.	8	7
Treasury stock, 154,653 and 96,508 shares as of March 31, 2024 and December 31, 2023, respectively.	(702)	(522)
Additional paid-in capital	272,950	232,568
Accumulated deficit	(217,297)	(198,683)
Total stockholders' equity	54,959	33,370
Total liabilities and stockholders' equity	$ 107,150	$ 92,151

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 March 31,	
	2024	**2023**
Revenue	$ 9,778	$ 6,185
Cost of revenue, excluding depreciation and amortization	5,285	2,868
Operating expenses:		
General and administrative expenses	7,662	7,201
Selling and marketing expenses	2,414	1,890
Research and development expenses	5,001	4,958
Depreciation and amortization	2,332	1,955
Total operating expenses	17,409	16,004
Loss from operations	(12,916)	(12,687)
Other income (expense):		
(Loss) gain on extinguishment of debt	(4,693)	527
Interest expense, net	(1,054)	(761)
Other income	49	239
Total other income (expense)	(5,698)	5
Net loss	$ (18,614)	$ (12,682)
Loss per common share	$ (0.23)	$ (0.23)
Weighted average shares outstanding		
Basic and diluted	79,558,346	54,680,048

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
Balance as of January 1, 2024	69,176,826	$ 7	96,508	$ (522)	$ 232,568	$ (198,683)	$ 33,370
Stock-based compensation	-	-	-	-	1,167	-	1,167
Issuance upon vesting of restricted stock units	459,773	-	-	-	-	-	-
Shares withheld upon vesting of restricted stock units	(58,145)	-	58,145	(180)	-	-	(180)
Shares issued as part of the ATD Acquisition	3,496,464	-	-	-	10,979	-	10,979
Retirement of the 2023 Promissory Notes	750,000	-	-	-	1,875	-	1,875
2024 Public Offering	11,500,000	1	-	-	26,361	-	26,362
Net loss	-	-	-	-	-	(18,614)	(18,614)
Balance as of March 31, 2024	85,324,918	$ 8	154,653	$ (702)	$ 272,950	$ (217,297)	$ 54,959
Balance as of January 1, 2023	54,405,080	$ 5	41,522	$ (417)	$ 202,747	$ (152,998)	49,337
Stock-based compensation	-	-	-	-	1,112	-	1,112
Issuance upon exercise of stock options	18,333	-	-	-	15	-	15
Issuance upon vesting of restricted stock units	557,193	-	-	-	-	-	-
Fair value allocated to warrants with 2023 Promissory Notes	-	-	-	-	5,125	-	5,125
Shares withheld upon vesting of restricted stock units	(49,969)	-	49,969	(89)	-	-	(89)
Issuance of common stock and warrants	6,100,000	1	-	-	9,158	-	9,159
Net loss	-	-	-	-	-	(12,682)	(12,682)
Balance as of March 31, 2023	61,030,637	$ 6	91,491	$ (506)	$ 218,157	$ (165,680)	$ 51,977

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)

	Three Months Ended March 31, 2024	2023
Cash Flows from Operating Activities:		
Net loss	$ (18,614)	$ (12,682)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	30	18
Depreciation	974	914
Amortization of right-of-use lease asset	186	-
Non-cash operating lease expense	219	153
Share-based compensation	1,167	1,112
Amortization of debt discount	399	444
Amortization of intangible assets	1,172	1,041
Loss due to the remeasurement of the STS Contingent Consideration	100	45
Loss (gain) on extinguishment of debt	4,693	(527)
Changes in operating assets and liabilities:		
Accounts receivable	566	(1,078)
Inventory	(427)	(728)
Other current assets	(208)	(451)
Deposits	7	6
Accounts payable, accrued expenses and other current liabilities	1,236	1,066
Contract liabilities	996	1,542
Operating lease liability	(382)	(365)
Net cash used in operating activities - continuing operations	(7,886)	(9,490)
Net cash provided by operating activities - discontinued operations	-	130
Net cash used in operating activities	(7,886)	(9,360)
Cash Flows from Investing Activities:		
Capital expenditures	(161)	(728)
Cash paid for ATD acquisition, net	(8,969)	-
Net cash used in investing activities	(9,130)	(728)
Cash Flows from Financing Activities:		
Proceeds from the public offering	26,362	-
Repayment of 2023 Promissory Notes	(12,500)	-
Net proceeds 2022 Promissory Notes - related party, exchanged for 2023 Promissory Notes - related party	-	400
Net proceeds 2023 Promissory Notes	-	4,000
Net proceeds 2023 Promissory Notes - related party	-	7,100
Net proceeds 2023 Registered Direct Offering	-	9,159
Proceeds from notes receivable	57	85
Net proceeds from exercise of options	-	15
Payments related to financing leases	(150)	-
Repayments of loans payable	(19)	(27)
Repurchases of common stock	(180)	(89)
Net cash provided by financing activities	13,570	20,643
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents - continuing operations	(3,446)	10,425
Net increase in cash, cash equivalents and restricted cash and cash equivalents - discontinued operations	-	130
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(3,446)	10,555
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	15,713	2,468
Cash, cash equivalents and restricted cash and cash equivalents at end of period	$ 12,267	$ 13,023
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents at end of period - continuing operations	$ 11,881	$ 12,066
Restricted cash and cash equivalents at end of period - continuing operations	386	378
Cash and cash equivalents at end of period - discontinued operations	-	579
Cash, cash equivalents and restricted cash and cash equivalents at end of period	$ 12,267	$ 13,023

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

Rekor Systems, Inc. (“Rekor”) was formed in February 2017. The consolidated financial statements include the accounts of Rekor, the parent company, and its wholly-owned subsidiaries Rekor Recognition Systems, Inc., Waycare Technologies Inc. and Waycare Technologies Ltd. (collectively, "Waycare"), Southern Traffic Services, Inc. ("STS") and All Traffic Data Services, LLC ("ATD") (collectively, the “Company”). The Company serves the roadway intelligence sector, developing product and services intended to revolutionize public safety, urban mobility, and transportation management on a global scale. The Company's vision is to improve the lives of citizens and the world around them by enabling safer, smarter, and greener roadways and communities. The Company works towards this vision by collecting, connecting, and organizing the world’s mobility data, and making it accessible and useful to its customers for real-time insights and decisioning for situational awareness, rapid response, risk mitigation, and predictive analytics for resource and infrastructure planning and reporting.

On January 2, 2024, the Company completed the acquisition of ATD by acquiring 100% of the issued and outstanding capital stock of ATD, which is now a wholly-owned subsidiary of the Company.

These unaudited condensed consolidated interim financial statements of 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 March 31, 2024, 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 months ended March 31, 2024 and 2023.

The financial data and other information disclosed in these notes are unaudited. The results for the three months ended March 31, 2024, are not necessarily indicative of the results to be expected for the year ending December 31, 2024.

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, 2023. 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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the extensive use of management's estimates. Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. On an ongoing basis, the Company evaluates its estimates, including those related to the collectability of accounts receivable, the fair value of intangible assets, the fair value of debt and equity instruments, income taxes and determination of standalone selling prices in contracts with customers that contain multiple performance obligations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

Liquidity and Going Concern

Management has assessed going concern uncertainty to determine whether there is sufficient cash on hand, together with expected capital raises and working capital, to assure operations for a period of at least one year from the date 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 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 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 services and marketing efforts associated with these products and services. As of and for the three months ended March 31, 2024, the Company had working capital of $ 5,241,000 and a net loss of $18,614,000.

Our cash decreased by $3,446,000 for the three months ended March 31, 2024 primarily due to the cash paid to acquire ATD and redeem the 2023 Promissory Notes and the net loss of $ 18,614,000, partially offset by external financing activity.

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 consolidated financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should the Company be unable 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 in the look-forward period.

Significant Accounting Policies

Goodwill

The excess purchase consideration over the fair value of acquired assets and liabilities is recorded as goodwill. Goodwill is subject to impairment testing on an annual basis. The Company will assess goodwill for impairment annually on October 1st of each year, or more often if events or changes in circumstances indicate that it might be impaired, by comparing its carrying value to the reporting unit's fair value. The Company will perform a qualitative assessment, to determine its fair value which includes an evaluation of relevant events and circumstances, including macroeconomic, industry and market conditions, the Company's overall financial performance, and trends in the value of the Company's common stock. As of March 31, 2024, the Company did not identify any events that would cause it to assess goodwill for impairment.

Business Combination

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

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

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for accounts receivable, notes receivable and accounts payable approximate fair value as of March 31, 2024 and December 31, 2023, because of the relatively short-term maturity of these financial instruments. The carrying amount reported for long-term debt and long-term receivables approximates fair value as of March 31, 2024 and December 31, 2023, given management's evaluation of the instrument's current rate compared to market rates of interest and other factors.

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

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

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

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

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

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

The Company considers its contingent consideration to be Level 3 investments and that the fair value approximates the carrying value.

There were no changes in levels during the year ended March 31, 2024.

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

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Recurring revenue	$ 4,963	$ 4,204
Product and service revenue	4,815	1,981
Total revenue	$ 9,778	$ 6,185

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 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 eCommerce 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 March 31,	
	2024	**2023**
Urban Mobility	$ 5,614	$ 2,754
Transportation Management	665	719
Public Safety	3,499	2,712
Total revenue	$ 9,778	$ 6,185

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 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.

Transportation Management

Transportation 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.

Public Safety

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

Performance obligations

The Company contracts with customers in a variety of ways, including contracts that obligate the Company to provide services over time. Some contracts include performance obligations for several distinct services. For those contracts that have multiple distinct performance obligations, the Company allocates the total transaction price to each performance obligation based on its relative standalone selling price, which is determined based on the Company's overall pricing objectives, taking into consideration market conditions and other factors. This may result in a deferral or acceleration of revenue recognized relative to cash received for each distinct performance obligation.

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 March 31, 2024, the unsatisfied portion of the remaining performance obligation was approximately $22,912,000. The Company expects to recognize approximately $ 17,494,000 of this amount as revenue over the succeeding twelve months, and the remainder is expected to be recognized within the next five years thereafter.

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 $1,367,000 and $946,000 were included in accounts receivable, net, in the unaudited condensed consolidated balance sheets as of March 31, 2024 and December 31, 2023, 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 length of the period during which services are to be provided. This revenue and the corresponding decrease in liabilities 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 balances during the three months ended March 31, 2024 were not materially impacted by any other factors. During the three months ended March 31, 2024, $1,449,000 of the contract liabilities balance as of December 31, 2023 was recognized as revenue.

The services due for contract liabilities described above are shown below as of March 31, 2024 (dollars in thousands):

2024, remaining	$	4,268
2025		1,039
2026		449
2027		180
2028		101
Thereafter		12
Total	$	6,049

Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents

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

Cash subject to contractual restrictions and not readily available for use is classified as restricted cash and cash equivalents. The Company's restricted cash balances are primarily made up of cash collected on behalf of certain client jurisdictions. Restricted cash and cash equivalents for these client jurisdictions as of March 31, 2024 and December 31, 2023 were $386,000 and $328,000, respectively, and correspond to equal amounts of related liabilities.

Concentrations of Credit Risk

The Company deposits its temporary cash investments with highly rated quality financial institutions that are located in the United States and Israel. The United States deposits are federally insured up to $250,000 per account. As of March 31, 2024 and December 31, 2023, the Company had deposits from operations totaling $12,267,000 and $15,713,000, respectively, in multiple U.S. financial institutions and one Israeli financial institution.

Customer A accounted for 13% of the unaudited condensed consolidated revenue for the three months ended March 31, 2023. No other single customer accounted for more than 10% of the Company's unaudited condensed consolidated revenues for the three months ended March 31, 2024 and 2023, respectively.

As of March 31, 2024, no single customer accounted for more than 10% of the Company's unaudited condensed consolidated accounts receivable balance. As of December 31, 2023, Customer A and Customer B accounted for 22% and 13% of the 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 December 31, 2023.

Accounts Payable, Accrued and Other Current Liabilities

As of March 31, 2024 and December 31, 2023, amounts owed to related parties of $ 210,000 and $253,000 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):

	March 31, 2024	December 31, 2023
Payroll and payroll related expense	$ 2,871	$ 2,824
Right of offset to restricted cash	386	328
STS Contingent Consideration	1,900	1,800
Other	603	658
Total	$ 5,760	$ 5,610

New Accounting Pronouncements Effective in Future Periods

In November 2023, FASB issued ASU 2023-07 - Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires public entities with a single reportable segment to provide all the disclosures required by this standard and all existing segment disclosures in Topic 280 on an interim and annual basis, including new requirements to disclose significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within the reported measure(s) of a segment's profit or loss, the amount and composition of any other segment items, the title and position of the CODM, and how the CODM uses the reported measure(s) of a segment's profit or loss to assess performance and decide how to allocate resources. The guidance is effective for our annual period beginning January 1, 2025, and interim periods thereafter, applied retrospectively with early adoption permitted. The Company is currently evaluating the impact of adoption of this standard on its financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires public entities to provide greater disaggregation within their annual rate reconciliation, including new requirements to present reconciling items on a gross basis in specified categories, disclose both percentages and dollar amounts, and disaggregate individual reconciling items by jurisdiction and nature when the effect of the items meet a quantitative threshold. The guidance also requires disaggregating the annual disclosure of income taxes paid, net of refunds received, by federal (national), state, and foreign taxes, with separate presentation of individual jurisdictions that meet a quantitative threshold. The guidance is effective for the Company's annual periods beginning January 1, 2025 on a prospective basis, with a retrospective option, and early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard on its financial statements and disclosures.

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, 2023.

NOTE 2 – ACQUISITION

ATD Acquisition

On January 2, 2024 (the "Closing Date"), the Company acquired All Traffic Data Services, LLC, a Colorado limited liability company ("ATD"), pursuant to that certain Interest Purchase Agreement (the "ATD Purchase Agreement"), dated as of the Closing Date, by and among the Company, ATD and All Traffic Holdings, LLC (the "Seller"). The Seller is a portfolio company of Seaport Capital, a private equity firm. ATD is engaged in the business of advanced traffic data collection. Under the terms of the ATD Purchase Agreement, the Company acquired all of the issued and outstanding limited liability company interests of ATD (the "ATD Acquisition").

The acquisition meets the criteria to be accounted for as a business in accordance with ASC 805, Business Combinations ("ASC 805"). This method requires, among other things, that assets acquired, and liabilities assumed be recognized at their fair values as of the acquisition date and that the difference between the fair value of the consideration paid for the acquired entity and the fair value of the net assets acquired be recorded as goodwill, which is not amortized but is tested at least annually for impairment. The aggregate purchase price for the interests of ATD was approximately $20,774,000, subject to a customary working capital adjustments. The purchase price comprised approximately $ 9,795,000 in cash, which included closing adjustments and 3,496,464 unregistered shares of the Company's common stock (the "Stock Consideration"), based on a volume weighted average trading price of the Company's common stock over a thirty consecutive trading day period prior to the date of the ATD Purchase Agreement, which was $2.86. 662,329 of the 3,496,464 shares of the Stock Consideration will be issued and delivered to the Seller on the twelve-month anniversary of the Closing Date, subject to cutback for working capital adjustments and/or indemnification claims favoring the Company, if any. As a result of the transaction, ATD became a wholly-owned subsidiary of the Company and ATD's key employees have agreed to continue employment with the Company or one of its affiliates.

In accordance with the acquisition method of accounting for a business combination, the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values as of the Closing Date. Since the acquisition of ATD occurred on January 2, 2024, the results of operations for ATD from the date of acquisition have been included in the Company's unaudited condensed consolidated statement of operations for the three months ended March 31, 2024. The table below shows the breakdown related to the preliminary purchase price allocation for the acquisition (dollars in thousands):

Consideration		
Cash paid	$	9,795
Common stock issued (3,496,464 shares at closing price of $3.14 per share)		10,979
Total Consideration	$	20,774

Recognized amounts of identifiable assets acquired and liabilities assumed		Estimated Fair Value
Assets		
Cash and cash equivalents	$	826
Accounts receivable		3,183
Property and equipment		1,565
Right-of-use operating lease assets		269
Other current assets		154
Intangible assets		12,100
Total assets acquired	$	18,097
Liabilities		
Accounts payable and accrued expenses	$	365
Lease liability operating		269
Other current liabilities		257
Total liabilities assumed	$	891
Fair value of identifiable net assets acquired		17,206
Purchase price consideration		20,774
Goodwill	$	3,568

Operations of Combined Entities

The following unaudited pro forma combined financial information gives effect to the acquisition of ATD and the Series A Prime Revenue Sharing Notes as if they were consummated as of January 1, 2023. A portion of the proceeds from the Series A Prime Revenue Sharing Notes was used to fund the acquisition of ATD and therefore the Company has included the impact of the issuance of the debt in its pro forma financial information. 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 and the issuance of the Series A Prime Revenue Sharing Notes been completed as of January 1, 2023 (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 March 31,	
	2024	**2023**
	(Dollars in thousands, except per share data)	
Total revenue	$ 9,778	$ 7,946
Net loss	$ (18,614)	$ (13,230)
Basic and diluted	$ (0.23)	$ (0.23)
Basic and diluted number of shares	79,558,346	58,176,511

NOTE 3 – SUPPLEMENTAL NON CASH DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three months ended March 31, 2024 and 2023 were as follows (dollars in thousands):

	Three Months Ended March 31,	
	2024	2023
Cash paid for interest	$ 868	$ 129
Cash paid for taxes	-	4
Decrease in accounts payable and accrued expenses related to purchases of property and equipment	-	(656)
Decrease in accounts payable and accrued expenses related to purchases of inventory	(42)	(698)
Decrease in deposits related to property and equipment received	247	116
Decrease in property and equipment that was uninstalled and moved to inventory	311	-
Non-cash financing activities:		
2022 Promissory Notes exchanged for 2023 Promissory Notes - related party	-	1,000
Warrants issued in connection with the 2023 Promissory Notes	-	1,640
Warrants issued in connection with the 2023 Promissory Notes - related party	-	3,485
Fair market value of shares issued in connection with the acquisition of ATD	10,979	-
2023 Promissory Note redemption premium settled in shares of the Company’s common stock	1,875	-
New Leases under ASC-842:		
Right-of-use assets obtained in exchange for new finance lease liabilities	47	-

NOTE 4 – INTANGIBLE ASSETS AND GOODWILL

ATD Acquisition

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 ATD occurred on January 2, 2024, the results of operations for ATD from the date of acquisition have been included in the Company's unaudited condensed consolidated statement of operations for the three months ended March 31, 2024. As part of the Company's preliminary purchase price allocation for the acquisition, the Company recognized $3,568,000 in goodwill, $11,900,000 in customer relationships, assigned a 15-year useful life, and $200,000 of marketing related intangible assets related to the ATD tradename, assigned an five-year useful life.

Intangible Assets Subject to Amortization

The following provides a breakdown of identifiable intangible assets, net as of March 31, 2024 and December 31, 2023 (dollars in thousands):

	March 31, 2024	December 31, 2023
Customer relationships	$ 15,761	$ 3,861
Marketing related	1,227	1,027
Technology based	24,107	24,107
Internally capitalized software	1,236	1,236
Total	42,331	30,231
Less: accumulated amortization	(14,164)	(12,992)
Identifiable intangible assets, net	$ 28,167	$ 17,239

These intangible assets are amortized on a straight-line basis over their estimated useful life. Amortization expense for the three months ended March 31, 2024 and 2023 was $1,172,000 and $1,041,000, 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 evaluate its intangible assets for impairment.

As of March 31, 2024, 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):

2024, remaining	$	3,504
2025		4,665
2026		3,853
2027		3,578
2028		2,602
Thereafter		9,965
Total	$	28,167

NOTE 5 – 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. As of March 31, 2024 and December 31, 2023, 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. Interest expense related to these notes was $14,000 and $14,000 for the three months ended March 31, 2024 and 2023, respectively.

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.

On March 4, 2024, the Company elected to prepay the outstanding 2023 Promissory Notes. The 2023 Promissory Notes were redeemed at the redemption price of 115% of the $ 12,500,000 aggregate principal amount of the 2023 Promissory Notes, or approximately $ 14,375,000, plus accrued and unpaid interest to the redemption date of approximately $263,000 (the "Redemption Payment"). The noteholders elected to accept $ 1,875,000 of the Redemption Payment in the form of 750,000 unregistered shares of the Company's common stock, par value $ 0.0001 per share, having a value of $2.50 per share, with the remainder of the Redemption Payment to be paid in cash. As a result of the Redemption Payment, the Company recognized a loss on extinguishment of debt of $4,693,000, which included 1,875,000 related to the early termination payment and $ 2,818,000 related to unamortized issuance costs.

The 2023 Promissory Notes were a senior secured obligation of the Company and ranked senior to all indebtedness of the Company, subject to certain exceptions, had a maturity date of July 18, 2025 (the "Maturity Date"), and bore an interest rate of 12% per annum.

Series A Prime Revenue Sharing Notes

On December 15, 2023, the Company issued $15,000,000 in Series A Prime Revenue Sharing Notes. Interest accrues on the Series A Prime Revenue Sharing Notes at a fixed annual rate of 13.25% and is paid monthly. The entire outstanding principal balance, together with all interest accrued and unpaid is due and payable on the maturity date of December 15, 2026. Debt issuance costs paid in connection with the Series A Prime Revenue Sharing Notes were $670,000 and are being amortized as interest expense using a straight-line method over the term of the Series A Prime Revenue Sharing Notes. The Company has a material relationship with Arctis, which invested $5,000,000 in connection with the $15,000,000 initial closing of the Series A Prime Revenue Sharing Notes.

Interest will be paid based on revenue received from an initial pool of “prime” accounts which are related to contracts from customers in five states, each of which has been rated at or above AAA/AA+/Aal for their respective unsecured general obligation debt by nationally recognized credit rating agencies. The Company entered into a base Indenture for the Series A Prime Revenue Sharing Notes as of December 15, 2023 with Argent Institutional Trust Company, as trustee. The Indenture creates a first priority security interest for the benefit of the holders of all subsequent notes issued under the Indenture. The Series A Prime Revenue Sharing Notes rank senior to the Company’s existing and future secured and unsecured debt with respect to the pool of revenue securing the Series A Prime Revenue Sharing Notes.

As part of the terms of the Series A Prime Revenue Sharing Notes the Company is required to maintain an interest reserve related to not less than three times the next monthly interest payment. Additionally, there is a sinking fund requirement which states if the three year value of eligible contracts is less than 170% of the aggregate outstanding principal amount of Series A Prime Revenue Sharing Notes. In the event that the sinking fund requirement is triggered, to meet the sinking fund requirement the Company would be required to maintain a cash balance sufficient to amortize the principal amount due on the Series A Prime Revenue Sharing Notes in equal monthly installments by the respective due dates of such series. The amount related to the interest reserve was $500,000 as of March 31, 2024 and is held by a third party and is presented as part of deposits on the consolidated balance sheets. The Company is not in default of any requirements as they relate to the Series A Prime Revenue Sharing Notes and the sinking fund has not been triggered as of March 31, 2024.

The Company may prepay the Series A Prime Revenue Sharing Notes at any time up until December 15, 2026 by paying a premium ranging from 103% to 106%. Thereafter, the Series A Prime Revenue Sharing Notes may be prepaid by the Company at par value; provided, however, that the Series A Prime Revenue Sharing Notes may not be redeemed prior to December 15, 2024. Repayment of the Series A Prime Revenue Sharing Notes consisting of all principal, plus any unpaid accrued interest, may also be accelerated by the noteholder upon a change in control or event of default. For the three months ended March 31, 2024, the Company recognized $496,000 in interest expense related to the Series A Prime Revenue Sharing Notes.

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 March 31,	
	2024	**2023**
Contractual interest expense	$ 794	$ 329
Amortization of debt issuance costs	399	444
Total interest expense	1,193	773
Less: interest income	(139)	(12)
Total interest expense, net	$ 1,054	$ 761

Schedule of Principal Amounts Due of Debt

The principal amounts due for long-term notes payable are shown below as of March 31, 2024 (dollars in thousands):

2024, remaining	$	1,056
2025		1,078
2026		15,083
2027		86
2028		26
Thereafter		-
Total		17,329
Less unamortized debt discount		(614)
Total notes payable	$	16,715

NOTE 6 – **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 March 31, 2024.

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 March 31, 2024.

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 months ended March 31, 2024 and 2023, 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 2019 through 2023 tax years remain subject to examination by the Internal Revenue Service. As of March 31, 2024 and December 31, 2023, our evaluation revealed no uncertain tax positions that would have a material impact on the unaudited condensed consolidated financial statements.

For the three months ended March 31, 2024 and 2023, the Company did not record any expense or benefit related to income tax.

NOTE 7 – 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.

H.C Wainwright & Co., LLC

In March 2023, the Company entered into an engagement letter with H.C. Wainwright & Co., LLC, ("HCW"), related to a capital raise (see Note 8 – 2023 Registered Direct Offering). That letter agreement contained provisions for both a “tail” fee due to HCW for any subsequent transactions the Company may enter into during the specified tail period with investors introduced to the Company by HCW during the term of the letter, as well as a right of first refusal ("ROFR"), to act as the Company's exclusive underwriter or placement agent on any subsequent financing transactions utilizing an underwriter or placement agent occurring within twelve months from the consummation of a transaction pursuant to the engagement letter.

In July 2023, the Company entered into an agreement with one of its stockholders in connection with the exercise of warrants held by the stockholder, which the Company refers to as the July Warrant Exercise Transaction. Subsequent to the July Warrant Exercise Transaction, the Company received a letter from HCW claiming entitlement to certain “tail” fees and warrant consideration stemming from the agreement with the Company's stockholder. The Company believed then, and believes now, that this claim is without merit. As a result of this claim and for other reasons articulated to HCW, the Company terminated its engagement letter with HCW, including for cause, which, the Company believes, eliminated both the “tail” provision and the ROFR provision with respect to the 2023 Registered Direct Offering.

On or about October 23, 2023, HCW filed a complaint in New York State Supreme Court asserting a claim for breach of contract against the Company relating to the July Warrant Exercise Transaction. HCW sought to recover compensatory and consequential damages and certain warrants under its letter agreement with Rekor and other fees, not less than a cash fee of $825,000 and the value of warrants to purchase an aggregate of up to 481,100 shares of common stock of the company at an exercise price of $ 2.00 per share as well as attorneys’ fees. On February 29, 2024, HCW filed a notice of discontinuance without prejudice and advised the court that it intended to commence a new proceeding by filing a new complaint that would address the claim in this lawsuit and subsequent events. On March 4, 2024, the court discontinued this lawsuit without prejudice.

On February 29, 2024, HCW initiated the new action with the filing of complaint in New York State Supreme Court. In this lawsuit, HCW advances the same breach of contract theory and seeks to recover the same damages as sought in the prior now-dismissed lawsuit. In addition, HCW seeks to recover an additional $2,156,000 in damages plus the value of warrants to purchase an aggregate of up to 805,000 shares of common stock at an exercise price of $3.125 per share in connection with Rekor’s February 2024 offering. HCW alleges that Rekor breached its engagement letter with HCW by failing to give HCW notice of this offering and failing to provide HCW with the opportunity to exercise the ROFR with respect to this transaction. On May 3, 2024, Rekor answered HCW’s complaint and filed counterclaims against HCW and Armistice Capital LLC ("Armistice") relating to Rekor’s March 2023 Registered Direct Offering, Armistice’s trading activity in Rekor common stock, and Rekor’s 2024 Public Offering. Rekor’s counterclaims include causes of action for fraud, breach of fiduciary duty, and tortious interference. Rekor seeks to recover damages from HCW and Armistice.

The Company believes these claims are without merit. The Company intends to vigorously defend itself in this lawsuit.

Occupational Safety and Health Administration (“OSHA”) Claim

In 2023 two previous employees of the Company (the “Claimants”) filed a complaint with OSHA (the “OSHA Complaints”) against the Company. Shortly after the OSHA Complaints were filed against the Company, the Company filed a position statement to address the OSHA Complaints. On November 30, 2023, OSHA issued its determination that, based on the information gathered thus far in its investigation, OSHA was unable to conclude that there was reasonable cause to believe that a violation of the statute occurred. OSHA thereby dismissed the complaint.

Thereafter, Claimants appealed the determination by filing objections and requesting a hearing before an Administrative Law Judge. The Company likewise filed a request for an award of attorneys’ fees. On January 4, 2024, the Office of Administrative Law Judges (“OALJ”) processed the appeals and issued its Notice of Docketing and Order of Consolidation. On February 28, 2024, the OALJ issued an Order setting forth a revised schedule governing the case with the start of the hearing scheduled for December 2, 2024.

The Company believes these claims are without merit. The Company intends to vigorously defend itself in this lawsuit.

NOTE 8 – STOCKHOLDERS' EQUITY

ATD Acquisition

In connection with the acquisition as described in *NOTE 2 – ACQUISITION*, the Company issued 3,496,464 shares of the Company's common stock as part of the consideration.

2024 Public Offering

On February 9, 2024, the Company issued and sold 10,000,000 shares of its common stock, at an offering price of $ 2.50 per share of common stock (the "2024 Public Offering Price") in a registered public offering by the Company (the " 2024 Public Offering"), pursuant to an underwriting agreement with William Blair & Company, L.L.C., as representative of the several underwriters named therein (collectively, the "Underwriters").

On February 9, 2024, the Underwriters exercised in-full their option to purchase up to 1,500,000 additional shares of common stock at the 2024 Public Offering Price (the "Underwriters' Option"). The exercise closed on February 13, 2024. The net proceeds to the Company for the exercise of the Underwriters' Option, after deducting the underwriting discounts and commissions and offering expenses payable by the Company, was $2,388,000, or approximately $26,362,000 in aggregate for the 2024 Public Offering including the exercise of the Underwriters' Option.

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 was exercisable for one share of common stock at an exercise price of $0.001 per share and expired when exercised in full. The Registered Direct Warrants were exercisable immediately upon issuance, had an expiration date five years following the issuance date and had 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 year ended December 31, 2023, 772,853 of the pre-funded warrants were exercised for 772,853 shares of the Company's common stock.

2023 Letter Agreement

On July 25, 2023, the Company entered into a letter agreement (the "2023 Letter Agreement") with the purchaser of the 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 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 shares of common stock underlying the 2023 Private Warrants have been registered for resale on a registration statement declared effective by the SEC on September 29, 2023. The 2023 Private Warrants will expire on January 25, 2029 and have an exercise price of $3.25.

The 2023 Private Warrants were valued using the Black-Scholes pricing model at a total of $ 6,757,000 based on a five year term, volatility of 115%, a risk-free of 4.15%, and stock price of $2.85. The fair value of the 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, based on the relative fair value basis, compared to the total proceeds received.

Table of Contents

Warrants

A summary of the warrant activity for the Company for the period ended March 31, 2024 is as follows:

	2023 Promissory Notes (1)	2023 Registered Direct Offering (2)	2023 Private Warrants (3)	Total
Active warrants as of January 1, 2024	6,250,000	481,100	2,850,000	9,581,100
Issued warrants	-	-	-	-
Exercised warrants	-	-	-	-
Outstanding warrants as of March 31, 2024	6,250,000	481,100	2,850,000	9,581,100
Weighted average strike price of outstanding warrants as of March 31, 2024	$ 2.00	$ 1.82	$ 3.25	$ 2.36
Intrinsic value of outstanding warrants as of March 31, 2024	$ 1,813,000	$ 227,000	$ -	2,040,000

(1) On January 18, 2023, in connection with the 2023 Promissory Notes, the Company issued warrants to the investors 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.

(2) On March 23, 2023, in connection with the 2023 Registered Direct Offering the Company issued warrants to the placement agent to purchase up to 481,100 shares of common stock. 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.

(3) 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 9 – 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.

On April 29, 2024, the Company filed a registration statement on Form S-8 solely to register an additional 7,912,216 shares of its common stock available for issuance under the 2017 Plan. This increase was approved by the Company's Board of Directors on March 22, 2024, and by the Company's stockholders on April 18, 2024 at the Company's annual meeting.

Stock Options

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

A summary of stock option activity under the Company's 2017 Plan for the period ended March 31, 2024 is as follows:

	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, 2024	688,841	$ 1.20	3.70	$ 1,478,000
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding balance as of March 31, 2024	688,841	$ 1.20	3.41	$ 788,000
Exercisable as of March 31, 2024	688,841	$ 1.20	3.41	$ 788,000

As of March 31, 2024, 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 March 31, 2024 and 2023 was $1,167,000 and $1,112,000, 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 three months ended March 31, 2024 is as follows:

	Number of Shares	Weighted Average Unit Price	Weighted Average Remaining Contractual Term (Years)
Outstanding balance as of January 1, 2024	1,747,458	$ 3.79	1.39
Granted	424,899	3.10	2.49
Vested	(459,773)	3.76	0.96
Forfeited	(36,180)	2.73	1.78
Outstanding balance as of March 31, 2024	1,676,404	$ 3.70	1.65

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

As of March 31, 2024, there was $4,124,000 of unrecognized stock compensation expense related to unvested RSUs granted under the 2017 Plan that will be recognized over an average remaining period of 1.65 years.

NOTE 10 – LOSS PER SHARE

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(Dollars in thousands, except per share data)	
Basic and diluted loss per share		
Net loss attributable to shareholders	$ (18,614)	$ (12,682)
Weighted average common shares outstanding - basic and diluted	79,558,346	54,680,048
Basic and diluted loss per share	$ (0.23)	$ (0.23)
Common stock equivalents excluded due to the anti-dilutive effect	11,946,345	16,375,816

As the Company had a net loss for the three months ended March 31, 2024, the following 11,946,345 potentially dilutive securities were excluded from diluted loss per share: 9,581,100 for outstanding warrants, 688,841 related to outstanding options and 1,676,404 related to outstanding RSUs.

As the Company had a net loss for the three months ended March 31, 2023, the following 16,375,816 potentially dilutive securities were excluded from diluted loss per share: 14,422,307 for outstanding warrants, less the 772,853 pre-funded warrants, 828,134 related to outstanding options and 1,898,228 related to outstanding RSUs.

NOTE 11 – SUBSEQUENT EVENTS

Authorized Common Stock

On April 22, 2024, the Company increased the number of authorized shares of common stock from 100,000,000 to 300,000,000. The number of authorized shares of the Company's preferred stock was not affected by this amendment and remained unchanged at 2,000,000 shares.

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, 2023, 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, local conflicts 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 the results of financing efforts;
- our ability to successfully identify, integrate and complete acquisitions and dispositions, including the integration of the ATD 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, and their impact U.S. and international markets and 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, 2023 (the “2023 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 is working to revolutionize public safety, urban mobility, and transportation management using AI-powered solutions designed to meet the distinct demands of each market we serve. We work hand-in-hand with our customers to deliver mission-critical traffic and engineering services that assist them in achieving their goals. Our vision is to improve the lives of citizens and the world around them by enabling safer, smarter, and greener roadways and communities. We work towards this by collecting, connecting, and organizing mobility data, and making it accessible and useful to our customers for real-time insights and decisioning for situational awareness, rapid response, risk mitigation, and predictive analytics for resource and infrastructure planning and reporting.

To achieve these goals, we have developed a robust, interconnected hardware infrastructure and advanced, purpose-built software platforms. These powerful tools, enriched by a diverse range of data and state-of-the-art AI, can produce a level of roadway intelligence that we believe is unmatched. Our solutions empower clients to efficiently manage and optimize the complex interactions of vehicles in motion, ensuring smooth operations within and around public safety, urban mobility, and transportation systems.

Our operations are conducted primarily by our wholly-owned subsidiaries, Rekor Recognition Systems, Inc., or ("Rekor Recognition"), Waycare Technologies Inc. and Waycare Technologies Ltd. (collectively, "Waycare"), Southern Traffic Services, Inc., or (“STS”), and All Traffic Data Solutions, LLC or ("ATD").

A New Operating System for Roadways

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

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

According to a report from the American Society of Civil Engineers ("ASCE"), US infrastructure has been graded a C minus, indicating that there is significant and urgent need for improvement. Over 65% of the 4.2 million miles of US roadways are rated in poor condition, which impacts the safety of drivers and passengers. The issue of congestion is also a serious concern, estimated to cost US citizens a whopping $120 billion per year in economic and productivity losses. Furthermore, transportation-related greenhouse gas emissions – motorists' emissions, particularly when trapped in traffic account for a significant proportion of the country's total emissions are a leading contributor to declining sustainability, which has far-reaching environmental impacts. Addressing the road infrastructure issue is imperative for both economic and ecological reasons. Last but not least, tragically, more than 43,000 people lose their lives each year while using the nation's transportation network of streets, roads, and highways, which represents a stark failure in public safety and policy. If these transportation network issues remain unaddressed, it has been projected that the United States will face a $10 trillion loss in its gross domestic product.

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

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

Roadway Intelligence

Rekor has 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, an array of curated and integrated data sets from a network of transportation ecosystem data providers, as well as platforms, applications, and data 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 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 – hardware, technology, and datasets - 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 forging a future where the mobility internet is not just connected, but interactive, delivering real-time roadway intelligence to revolutionize traffic management, public safety, maintenance, emergency services, and planning agencies, as well as supporting connected and autonomous vehicles. Our enduring mission is to innovate and perfect a unique, AI-driven, and edge-based IoT network. This network is designed to be pivotal in this transformation, working in harmony with key partners in the transportation and public safety ecosystem to deliver the most comprehensive insights impacting safety, health, and sustainability for roadways, communities, and citizens.

Our commitment is to continue to focus our investments, merging physical and digital infrastructure to lay the groundwork for a new, advanced operating system for roadways. As we move forward, Rekor is positioned to play an indispensable and impactful role, supporting private and public agencies as they design and construct digital infrastructure operating system of the future. We are dedicated to fulfilling the critical demand for real-time and predictive roadway intelligence, ensuring that our solutions are not just innovative but also instrumental in shaping the future of public safety, urban mobility, and transportation management.

Roadway Intelligence Powered by Rekor

Our Rekor One® roadway intelligence engine is purpose-built to be a single source of truth, powered by AI and fueled by rich 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 platforms facilitate the efficient collection, analysis, and distribution of vast amounts of data, unlocking real-time and predictive operational insights 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.

Our Rekor One® roadway intelligence engine 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 support diverse use cases, including: 1) traffic reports, including counts showing Federal Highway Administration ("FHWA") mandated vehicle classifications and speed, analytics for bicycle, pedestrians, and other micro-mobility 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 traffic surveillance, to assist law enforcement and support intelligence-based policing, 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.

Opportunities, Trends and Uncertainties

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

- Growing Smart City Market – According to a United Nations report, about two-thirds of the world population will live in urban areas by 2050. The world's cities are getting larger, with longer commutes and the resulting impact on the environment and the quality of life. This trend requires forward-thinking officials to manage assets and resources more efficiently. We believe that advancements in "big data" connected devices and artificial intelligence can provide Intelligent Transportation System ("ITS") solutions that can be used to reduce congestion, keep travelers safe, improve transportation, protect the environment, respond to climate change, and enhance the quality of life. We believe our data-driven, artificial intelligence-aided solutions provide useful tools that can effectively tackle the challenges cities and communities are facing today and will face over the coming decades.
- AI for Infrastructure – We believe that the application of AI to the analysis of conditions on roadways and other transportation infrastructure can significantly affect the safety and efficiency of travel in the future. As vehicles move towards full automation, there is a need for real-time data and actionable insights around traffic flow, identification of anomalous and unsafe movements – e.g. wrong way vehicles, stopped vehicles, or/and pedestrians on the roadway. Marketers and drive-thru retailers with loyalty programs can also benefit from rapid, lower cost identification of existing and potential customers in streamlining and accelerating local vehicular flow as well as data about the vehicles on the roadway.
- Connected Vehicle Data – Today's new vehicles are equipped with dozens of sensors, collecting information about internal systems, external hazards, and driving behaviors. This data is a resource that transportation and other agencies are beginning to find valuable uses for. Notably, the data from these vehicles represent a virtual network that is independent of the infrastructure which is maintained and operated by the public agencies. Connected vehicle sensors can provide important information related to hazardous conditions, speed variations, intersection performance, and more. This data can help agencies and municipalities gain more visibility about conditions on their roads, supplementing data from existing infrastructure and allowing transportation information from rural areas that are not served by ITS infrastructure to be integrated into the overall analysis.
- New and Expanded Uses for Vehicle Recognition Systems – We believe that reductions in the cost of vehicle recognition products and services will significantly broaden the market for these systems. We currently serve many users who could not afford the cost, or adapt to the restrictions of, conventional vehicle recognition systems. These include smaller municipalities, homeowners' associations, and organizations finding new applications such as innovative customer loyalty programs. We have seen and responded to an increase in the number of smaller jurisdictions that are testing vehicle recognition systems or that issued requests for proposals to install a network of vehicle recognition sensors. We also expect the availability of faster, higher-accuracy, lower-cost systems to dramatically increase the ability of crowded urban areas to manage traffic congestion and implement smart city programs.
- Adaptability of the Market – We have made a considerable investment in our advanced vehicle recognition systems because we believe their increased accuracy, affordability and ability to capture additional vehicle data will allow them to compete effectively with existing providers. Based on published benchmarks, our software currently outperforms competitors. However, large users of existing technology, such as toll road operators, have long-term contracts with service providers that have made considerable investments in their existing technologies and may not consider the improvements in accuracy or reductions in cost sufficient to justify abandoning their current systems in the near future. In addition, existing providers may be able to reduce the cost of their current offerings or elect to reduce prices and accept reduced profitability while working to develop their own systems or secure advanced systems from others who are also working to develop them. As a result, our success in establishing a major position in these markets will depend on being able to effectively communicate our presence, develop strong customer relationships, and maintain leadership in providing the capabilities that customers want. As with any large market, this will require considerable effort and resources.
- Expansion of Automated Enforcement of Motor Vehicle Laws – We expect contactless compliance programs to be expanded as the types of vehicle related violations authorized for automated enforcement increase and experience provides localities with a better understanding of the circumstances where it is and is not beneficial. We believe that future legislation will increasingly allow for automated enforcement of regulations such as motor vehicle insurance and registration requirements. Communities are currently searching for better means of achieving compliance with minor vehicle offenses, such as lapsed registrations, and safety issues such as motorists who fail to stop for school buses. For example, due to high rates of fatalities and injuries to law enforcement and other emergency response crews on roadsides, several states are considering authorizing automated enforcement of violations where motorists fail to slow down and/or move over for emergency responders and law enforcement vehicles at the side of the road. To the extent that legislative implementation is required, a deliberative and necessarily time-consuming process is involved. However, as states expand auto-enforcement, the market for these products and services should broaden in the public safety market.
- Graphic Processing Unit ("GPU") Improvements – We expect our business to benefit from more powerful and affordable GPU hardware that has recently been developed. These GPUs are more efficient for image processing because their highly parallel structure makes them more efficient than general-purpose central processing units ("CPUs") for algorithms that process large blocks of data, such as those produced by video streams. GPUs also provide superior memory bandwidth and efficiencies as compared to their CPU counterparts. The most recent versions of our software have been designed to use the increased GPU speeds to accelerate image recognition. The GPU market is predicted to grow as a result of a surge in the adoption of the Internet of Things ("IoT") by the industrial and automotive sectors. As GPU manufacturers increase production volume, we hope to benefit from the reduced cost to manufacture the hardware included in our products or available to others using our services.

- Edge Processing – Demand for actionable roadway information continues to grow in parallel with sensor improvements, such as increasingly sophisticated internal software and optical and other hardware adapted to the use of this software. Over the last several decades, sensors have evolved and unlocked new capabilities with each advancement. Further, cellular networks have been optimized for downloading data rather than uploading data. As a result, while download speeds have improved significantly due to large investments in cellular infrastructure, this has resulted in relatively small improvements to cellular upload speeds. With roadside deployments experiencing explosive growth in count and density, scalability, latency and bandwidth have become aspects of competition in the market. Our systems have been designed to address these issues through the use of more effective edge processing, enabled both by incorporating the increasingly effective new GPUs into our systems and continual improvements in the efficiency of our AI algorithms. Our edge processing systems ingest local HD video streams at the source and convert the raw video data to text data, dramatically reducing the volume of data that needs to be transferred through the network. Edge processing allows us to scale a network dramatically without the bandwidth, cost, latency and dependability limitations that are experienced by other networks where raw video needs to be streamed to the cloud for processing.
- Accelerated Business Development and Marketing – Our ability to compete in a large, competitive and rapidly evolving industry will require us to achieve and maintain a visible leadership position. As a result, we have made significant investments in our business development, marketing and eCommerce activities to increase awareness and market adoption of our products and services within key markets. We anticipate that a sustained presence in the market, the continued development of strategic partnerships and other economies of scale will reduce the level of costs necessary to support sales of our products and services. However, the speed at which these markets grow to the degree to which our products and services are adopted is uncertain.

- 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.
- Recent Acquisitions - Over the past two years, Rekor has acquired two subsidiaries as part of its plans to advance its appeal to national and local transportation agencies. In the first of these acquisitions, we acquired a leader in the development of predictive analytics for traffic management using a combination of internally generated and third party data sources. This acquisition was designed to assure transportation agencies that we were developing the most advanced data analysis systems to support their missions in safety and efficiency. In the second acquisition, we acquired one of the leading existing providers of traffic data services in the United States. Uniquely, this Company had innovated a change in the service model from providing, servicing and maintaining agency resources to a data services model where overlapping entities could benefit from our modular approach to data collection and dissemination. Each of these acquisitions has led to increased visibility for the Company among national and state level DOTs in the United States.
- Challenges to Executing on the Corporate Strategy – As an acquirer and integrator of established technology companies in the ITS industry, there is an inherent risk associated with the successful implementation and execution of the strategy. If Rekor is unable to successfully implement and execute its plans, there could be a material and adverse effect on the Company’s business, results of operations, and financial condition.
- Inability to Achieve Profitability - Rekor continues to grow its business, its operating expenses and capital expenditures have increased, and it has not yet achieved the level of sustaining profitability. As a result, if the Company is unable to generate additional revenue or achieve planned efficiencies in operations, or if its revenue declines significantly, Rekor may not be able to achieve profitability in the future, which would materially and adversely affect the Company’s business.
- Inability to Retain Qualified Personnel – Rekor’s success depends on the continued efforts and abilities of the senior management team and key engineering and marketing specialists. Although Rekor has employment agreements with these employees, they may not choose to remain employed by Rekor. Should one or more key personnel leave the Company or join a competitor, the Company’s business, operating results, and financial condition can be adversely affected.
- Inability to Compete Effectively - Competition and technological advancements by others may erode the Company’s business and result in inability to capture new business and revenue. Each business line faces significant competitive pressures within the markets in which they operate. While Rekor continues to work to develop and strengthen its competitive advantages, many factors such as market and technology changes may erode or prevent this. If the Company is unable to successfully maintain its competitive advantage, the Company’s business, operating results, and financial condition can be adversely affected.
- Cyber Security Risks - Rekor relies on information technology in all aspects of its business. A significant disruption or failure in the information technology systems could result in services interruptions, safety failures, security violations, regulatory compliance failures, an inability to protect information and assets against intruders, and other operational difficulties. This could result in the loss of assets and critical information and expose the Company to remediation costs and reputational damage. Although Rekor takes reasonable steps intended to mitigate these risks, a significant disruption or cyber intrusion could lead to misappropriation of assets or data corruption and could adversely affect the Company’s results of operations, financial condition, and liquidity.
- Intellectual Property Claims - Third parties that have been issued patents or have filed for patent applications similar to those used by the Company’s operating subsidiaries may result in intellectual property claims against the Company. Rekor cannot determine with certainty whether existing third-party patents or the issuance of any future third party patents would require any of its operating subsidiaries to alter their respective technologies, obtain licenses or cease certain activities. Should the Company be unable to defend against such claims, the Company’s business, operating results, and financial condition can be adversely affected.

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.

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 income and 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 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

Business Combination

The Company has made a preliminary estimate of the allocation of the preliminary purchase price of ATD to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair value. The Company is still evaluating the fair value of intangible assets, and income taxes, in addition to ensuring all other assets and liabilities have been identified and recorded. The Company has estimated the preliminary fair value of assets acquired and liabilities assumed based on information currently available and will continue to adjust those estimates as additional information pertaining to events or circumstances become available. The Company will reflect measurement period adjustments, in the period in which the adjustments occur, and the Company will finalize its accounting for the acquisition within one year from the Closing Date. A change in the fair value of the net assets may change the amount of the purchase price allocable to goodwill. If the final fair value estimates and tax adjustments related to the net assets acquired decrease from their preliminary estimates, the amount of goodwill will increase. In addition, the final fair value estimates related to the net assets acquired could impact the amount of amortization expense recorded associated with amounts allocated to tangible and intangible assets. The fair value measurements were primarily based on significant inputs that are not observable in the market, such as discounted cash flow ("DCF") analyses, and thus represent Level 3 fair value measurements.

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, 2023.

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.

	Three Months Ended March 31,	
(Dollars in thousands)	2024	2023
Revenue	$ 9,778	$ 6,185
Cost of revenue, excluding depreciation and amortization	5,285	2,868
Operating expenses:		
General and administrative expenses	7,662	7,201
Selling and marketing expenses	2,414	1,890
Research and development expenses	5,001	4,958
Depreciation and amortization	2,332	1,955
Total operating expenses	17,409	16,004
Loss from operations	(12,916)	(12,687)
Other income (expense):		
(Loss) gain on extinguishment of debt	(4,693)	527
Interest expense, net	(1,054)	(761)
Other income	49	239
Total other income (expense)	(5,698)	5
Net loss	$ (18,614)	$ (12,682)

Comparison of the Three Months Ended March 31, 2024 and the Three Months Ended March 31, 2023

Total Revenue

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2024	2023	$	%
Revenue	$ 9,778	$ 6,185	$ 3,593	58%

The increase in revenue for the three months ended March 31, 2024, compared to the three months ended March 31, 2023, was primarily attributable to our acquisition of ATD in January 2024. During the three months ended March 31, 2024, revenue attributable to ATD was $2,364,000.

Cost of Revenue, Excluding Depreciation and Amortization

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2024	2023	$	%
Cost of revenue, excluding depreciation and amortization	$ 5,285	$ 2,868	$ 2,417	84%

For the three months ended March 31, 2024, 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. Additionally, $829,000 of the increase was related to our acquisition of ATD.

Operating Expenses

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2024	2023	$	%
Operating expenses:				
General and administrative expenses	$ 7,662	$ 7,201	$ 461	6%
Selling and marketing expenses	2,414	1,890	524	28%
Research and development expenses	5,001	4,958	43	1%
Depreciation and amortization	2,332	1,955	377	19%
Total operating expenses	$ 17,409	$ 16,004	$ 1,405	9%

General and Administrative Expenses

The increase in general and administrative expenses of $461,000 was primarily due to:

- a $816,000 increase in general and administrative expenses as a result of the acquisition of ATD.
- a $149,000 increase in software expense related to hosting of data.
- a $98,000 increase in expenses related to our directors, mainly as a result the addition of two new members to our Board of Directors.

These expenses were offset by

- a $337,000 decrease in payroll and payroll related expenses related to our operations excluding ATD.
- a $390,000 decrease in professional services related to our operations excluding ATD.

Selling and Marketing Expenses

The increase in selling and marketing expenses of $524,000 was primarily due to:

- a $377,000 increase in payroll and payroll related costs, primarily to support our sales strategy.
- a $163,000 increase in advertising expense, of which approximately $91,000 was related to our acquisition of ATD.

Research and Development Expense

Research and development expenses during the three months ended March 31, 2024, compared to the three months ended March 31, 2023, remained consistent period over period.

Depreciation and Amortization

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

Other Income (Expense)

	Three Months Ended March 31,		Change	
(Dollars in thousands)	2024	2023	$	%
Other income (expense):				
(Loss) gain on extinguishment of debt	$ (4,693)	$ 527	$ (5,220)	-991%
Interest expense, net	(1,054)	(761)	(293)	-39%
Other income	49	239	(190)	-79%
Total other income (expense)	$ (5,698)	$ 5	$ (5,703)	-114060%

Interest expense increased period over period due to the issuance of the Series A Prime Revenue Sharing Notes.

(Loss) gain on extinguishment of debt is a result of early redemption of the 2023 Promissory Notes. As part of the redemption, we recorded a Redemption Payment of $1,875,000 which we settled through the issuance of common stock and accelerated debt issuance costs of $2,818,000.

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 March 31,	
	2024	2023
Net loss	$ (18,614)	$ (12,682)
Interest	1,054	761
Depreciation and amortization	2,332	1,955
EBITDA	$ (15,228)	$ (9,966)
Share-based compensation	$ 1,167	$ 1,112
Loss (gain) on extinguishment of debt	4,693	(527)
Adjusted EBITDA	$ (9,368)	$ (9,381)

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 March 31,	
	2024	2023
	(Dollars in thousands, except percentages)	
Revenue	$ 9,778	$ 6,185
Cost of revenue, excluding depreciation and amortization	5,285	2,868
Adjusted Gross Profit	$ 4,493	$ 3,317
Adjusted Gross Margin	46.0%	53.6%

Adjusted Gross Margin for the three months ended March 31, 2024 decreased compared to the three months ended March 31, 2023. During the three months ended March 31, 2024, the Company had a lower 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 (dollars in thousands):

	Three Months Ended March 31,		Change	
	2024	2023	$	%
Recurring revenue	$ 4,963	$ 4,204	$ 759	18%

As we continue to focus on long-term contracts with recurring revenue as part of our business model, we expect recurring revenue growth in future periods to continue to increase as we move to market our suite of products through our Rekor One™ platform. However, procurement requirements for some of our largest customers may result in periods when there is an increase one-time sales as compared to recurring revenues, which may cause the proportion of recurring revenues generated in those periods to fluctuate.

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 March 31,		Change	
	2024	2023	$	%
Total Contract Value	$ 7,846	$ 12,083	$ (4,237)	-35%

The decrease in total contract value is primarily related to large statewide contracts that closed in the first quarter of 2023. These multi-year contracts are still in effect in 2024.

Performance Obligations

As of March 31, 2024, we had approximately $22,912,000 of contracts that were closed prior to March 31, 2024 but have a contractual period beyond March 31, 2024. This represents a decrease of $3,478,000 or 13% compared to $26,390,000 of performance obligations as of December 31, 2023. 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 $17,494,000 of this amount over the succeeding twelve months, and the remainder is expected to be recognized over the following four years. On occasion, our customers will prepay the full contract or a substantial portion of the contract. Amounts related to the prepayment of the contract related to the performance obligation for a service period that is not yet met are recorded as part of our contract liabilities balance.

Lease Obligations

As of March 31, 2024, 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 for the periods included (dollars in thousands):

	Three Months Ended March 31,			
	2024	2023	Change	
			$	%
Net cash used in operating activities	$ (7,886)	$ (9,490)	$ 1,604	17%
Net cash used in investing activities	(9,130)	(728)	(8,402)	-1154%
Net cash provided by financing activities	13,570	20,643	(7,073)	-34%
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	$ (3,446)	$ 10,425	$ (13,871)	133%

Net cash used in operating activities for the three months ended March 31, 2024 had a decrease of $1,604,000, which was primarily attributable to the timeliness of collections related to our accounts receivable balance.

The increase in net cash used in investing activities of $8,402,000 was primarily due to the net cash outflow of $8,969,000 related to the acquisition of ATD.

Net cash provided by financing activities for the three months ended March 31, 2024 decreased by $7,073,000 from the prior three month period ended March 31, 2023. During the three months ended March 31, 2024, as part of our 2024 Public Offering, we received net proceeds of $26,362,000, these proceeds were partially offset by the repayment of our 2023 Promissory Notes. During the three months ended March 31, 2023, as part of the 2023 Promissory Notes and the 2023 Registered Direct Offering, we received net proceeds of $11,100,000 and $9,159,000, respectively.

For the three months ended March 31, 2024 and 2023, we funded our operations primarily through cash from operating activities, the issuance of debt and the sale of equity. As of March 31, 2024, we had cash and cash equivalents of $12,267,000 and working capital of $5,241,000, as compared to cash and cash equivalents of $15,713,000 and working capital of $8,100,000 as of December 31, 2023.

Liquidity

Management has assessed going concern uncertainty to determine whether there is sufficient cash on hand, together with expected capital raises and working capital, to assure operations for a period of at least one year from the date these 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 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.

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 three months ended March 31, 2024, we had working capital of $5,241,000 and a loss of $18,614,000.

Our cash decreased by $3,446,000 for the three months ended March 31, 2024 primarily due to the cash paid to acquire ATD and redeem the 2023 Promissory Notes and the net loss of $18,614,000, partially offset by external financing activity.

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

The Company's ability to generate positive operating results and execute its business strategy will depend on (i) its ability to continue the growth of its customer base, (ii) its ability to continue to improve its quarterly financial metrics such as net loss and cash used from operating activities (iii) the continued performance of its contractors, subcontractors and vendors, (iv) its ability to maintain and build good relationships with investors, lenders and other financial intermediaries, (v) its ability to maintain timely collections from existing customers, and (vi) the ability to scale its business processes. To the extent that events outside of the Company's control have a significant negative impact on economic and/or market conditions, they could affect payments from customers, services and supplies from vendors, its ability to continue to secure and implement new business, raise capital, and otherwise, depending on the severity of such impact, materially adversely affect its operating results.

2024 Public Offering

On February 9, 2024, the "Company issued and sold 10,000,000 shares of its common stock, at an offering price of $2.50 per share of common stock (the "2024 Public Offering Price") in a registered public offering by the Company (the " 2024 Public Offering"), pursuant to an underwriting agreement with William Blair & Company, L.L.C., as representative of the several underwriters named therein (collectively, the "Underwriters").

On February 9, 2024, the Underwriters exercised in-full their option to purchase up to 1,500,000 additional shares of common stock at the 2024 Public Offering Price (the "Underwriters' Option"). The purchase closed on February 13, 2024. The net proceeds to the Company for the exercise of the Underwriters' Option, after deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company, was $2,388,000, or approximately $26,362,000 in aggregate for the 2024 Public Offering including the exercise of the Underwriters' Option.

As of March 31, 2024, 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 the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2024, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weakness described below.

Identified Material Weakness

A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Management identified a material weakness during its assessment of internal controls over financial reporting as of March 31, 2024. Specifically, because of the tax accounting treatment of intangible assets related to the acquisition of ATD, we concluded that our controls to address the risks associated with the tax implications of significant and unusual transactions and their impact to our financial reporting were not effectively designed or maintained.

Accordingly, we concluded that this control deficiency resulted in a reasonable possibility that a material misstatement of the interim financial statements would not be prevented or detected on a timely basis by our internal controls. Our management performed additional analysis as deemed necessary to ensure that our unaudited financial statements included in this Report were prepared in accordance with U.S. GAAP. Accordingly, management believes that the unaudited financial statements included in this Report present fairly, in all material respects for the periods presented.

Management's Remediation Initiative

While we have processes to properly identify significant or unusual transactions, we plan to continue to improve these processes to ensure that the nuances of such transactions are effectively evaluated in the context of the increasingly complex accounting and tax standards.

To further strengthen our internal controls, we plan to modify our management review controls over significant and unusual transactions to engage our tax experts prior to our reporting deadlines to assist in identifying the tax implications of transactions deemed to be significant and unusual that occurred during the applicable period.

The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively. We anticipate that these initiatives will be at least partially, if not fully, implemented by the end of fiscal year 2024.

Changes to Internal Control over Financial Reporting

Except as described above, 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

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.

H.C Wainwright & Co., LLC

In March 2023, the Company entered into an engagement letter with H.C. Wainwright & Co., LLC, ("HCW"), related to a capital raise (see Note 8 – 2023 Registered Direct Offering). That letter agreement contained provisions for both a "tail" fee due to HCW for any subsequent transactions the Company may enter into during the specified tail period with investors introduced to the Company by HCW during the term of the letter, as well as a right of first refusal ("ROFR"), to act as the Company's exclusive underwriter or placement agent on any subsequent financing transactions utilizing an underwriter or placement agent occurring within twelve months from the consummation of a transaction pursuant to the engagement letter.

In July 2023, the Company entered into an agreement with one of its stockholders in connection with the exercise of warrants held by the stockholder, which the Company refers to as the July Warrant Exercise Transaction. Subsequent to the July Warrant Exercise Transaction, the Company received a letter from HCW claiming entitlement to certain "tail" fees and warrant consideration stemming from the agreement with the Company's stockholder. The Company believed then, and believes now, that this claim is without merit. As a result of this claim and for other reasons articulated to HCW, the Company terminated its engagement letter with HCW, including for cause, which, the Company believes, eliminated both the "tail" provision and the ROFR provision with respect to the 2023 Registered Direct Offering.

On or about October 23, 2023, HCW filed a complaint in New York State Supreme Court asserting a claim for breach of contract against the Company relating to the July Warrant Exercise Transaction. HCW sought to recover compensatory and consequential damages and certain warrants under its letter agreement with Rekor and other fees, not less than a cash fee of $825,000 and the value of warrants to purchase an aggregate of up to 481,100 shares of common stock of the company at an exercise price of $2.00 per share as well as attorneys' fees. On February 29, 2024, HCW filed a notice of discontinuance without prejudice and advised the court that it intended to commence a new proceeding by filing a new complaint that would address the claim in this lawsuit and subsequent events. On March 4, 2024, the court discontinued this lawsuit without prejudice.

On February 29, 2024, HCW initiated a new action with the filing of complaint in New York State Supreme Court. In this lawsuit, HCW advances the same breach of contract theory and seeks to recover the same damages as sought in the prior now-dismissed lawsuit. In addition, HCW seeks to recover an additional $2,156,000 in damages plus the value of warrants to purchase an aggregate of up to 805,000 shares of common stock at an exercise price of $3.125 per share in connection with Rekor's February 2024 offering. HCW alleges that Rekor breached its engagement letter with HCW by failing to give HCW notice of this offering and failing to provide HCW with the opportunity to exercise the ROFR with respect to this transaction. On May 3, 2024, Rekor answered HCW's complaint and filed counterclaims against HCW and Armistice Capital LLC ("Armistice") relating to Rekor's March 2023 Registered Direct Offering, Armistice's trading activity in Rekor common stock, and Rekor's 2024 Public Offering. Rekor's counterclaims include causes of action for fraud, breach of fiduciary duty, and tortious interference. Rekor seeks to recover damages from HCW and Armistice.

The Company believes these claims are without merit. The Company intends to vigorously defend itself in this lawsuit.

Occupational Safety and Health Administration ("OSHA") Claim

In 2023 two previous employees of the Company (the "Claimants") filed a complaint with OSHA (the "OSHA Complaints") against the Company. Shortly after the OSHA Complaints were filed against the Company, the Company filed a position statement to address the OSHA Complaints. On November 30, 2023, OSHA issued its determination that, based on the information gathered thus far in its investigation, OSHA was unable to conclude that there was reasonable cause to believe that a violation of the statute occurred. OSHA thereby dismissed the complaint.

Thereafter, Claimants appealed the determination by filing objections and requesting a hearing before an Administrative Law Judge. The Company likewise filed a request for an award of attorneys' fees. On January 4, 2024, the Office of Administrative Law Judges ("OALJ") processed the appeals and issued its Notice of Docketing and Order of Consolidation. On February 28, 2024, the OALJ issued an Order setting forth a revised schedule governing the case with the start of the hearing scheduled for December 2, 2024.

The Company believes these claims are without merit. The Company intends to vigorously defend itself in this lawsuit.

ITEM 1A. RISK FACTORS

We have identified a material weakness in our internal control over financial reporting. If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.

In connection with the preparation of our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2024, management identified a material weakness during its assessment of internal controls over financial reporting. Specifically, we concluded that our controls to address the risks associated with the tax implications of significant and unusual transactions and their impact to our financial reporting were not effectively designed or maintained. As defined in the Standards of the Public Company Accounting Oversight Board, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Our management is executing a plan to remediate the material weakness, although there can be no assurance that such our plan will be successful.

Management continues to review and assess our internal controls to ensure we have adequate internal financial and accounting controls. However, any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, and cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting that are required with respect to annual reports that we will file. The existence of a material weakness could result in errors in our financial statements that could cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information which may lead to a decline in our stock price.

Other than the risk factor discussed above, 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 25, 2024. 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

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.

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.

ATD Acquisition

As previously disclosed under Item 3.02 in the Company's Current Report on Form 8-K filed with the SEC on January 3, 2024, as part of the purchase price the Company issued to the sellers of ATD 3,496,464 unregistered shares of the Company's common stock, valued at $10,000,000. 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. On February 27, 2024, the Company filed a registration statement on Form S-3 to register these shares.

2023 Promissory Notes Redemption

On March 4, 2024, the Company completed the redemption of all its outstanding senior secured notes (the "2023 Promissory Notes"). The 2023 Promissory Notes were redeemed at the redemption price of 115% of the $12,500,000 aggregate principal amount of the 2023 Promissory Notes, or approximately $14,375,000, plus accrued and unpaid interest to the redemption date of approximately $263,000, (the "Redemption Payment"). The noteholders elected to accept $1,875,000 of the Redemption Payment in the form of 750,000 unregistered shares of the Company's common stock, par value $0.0001 per share, having a value of $2.50 per share, with the remainder of the Redemption Payment paid in cash.

Use of Proceeds

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None of the Company's directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's fiscal quarter ended March 31, 2024, as such terms are defined under Item 408(a) of Regulation S-K.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/Furnished
		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	Third Certificate of Amendment to Amended and Restated Certificate of Incorporation of Rekor Systems, Inc. as filed with the Secretary of the State of Delaware on April 22, 2024.	8-K	001-38338	3.1	4/22/24	
3.5	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.

Table of Contents

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:	May 15, 2024
By:	*/s/ Eyal Hen*
Name:	Eyal Hen
Title:	Chief Financial Officer
	Principal Financial and Accounting Officer
Date:	May 15, 2024

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: May 15, 2024

/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: May 15, 2024

/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 March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/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 March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/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.