SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Brekford Corp.

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015
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: 000-52719

Brekford Corp.

(Exact name of registrant as specified in its charter)

Delaware	**20-4086662**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

7020 Dorsey Road, Hanover, Maryland 21076
(Address of Principal Executive Office) (Zip Code)

(443) 557-0200
(Registrant's telephone number, including area code)
N/A
(Former name, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes ☑ No ❑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ❑ Accelerated filer ❑ Non-accelerated filer ❑ Smaller reporting company ☑

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date. The issuer had 44,632,569 shares of Common Stock, par value $0.0001 per share ("Common Stock") issued and outstanding as of November 11, 2015.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brekford Corp.

Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash, unrestricted	$ 796,410	$ 1,112,881
Accounts receivable, net of allowance $0 at September 30, 2015 and December 31, 2014, respectively	3,839,754	1,706,704
Unbilled receivables	490,646	198,725
Prepaid expenses	152,585	146,569
Inventory	1,170,834	681,948
Total current assets	6,450,229	3,846,827
Property and equipment, net	133,695	284,322
Other non-current assets	173,887	112,132
TOTAL ASSETS	$ 6,757,811	4,243,281
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,717,289	$ 1,842,892
Accrued payroll and related expenses	81,214	23,252
Line of credit	2,610,684	1,169,558
Term loan – current portion	229,167	250,000
Deferred revenue	81,954	255,405
Customer deposits	137,315	137,826
Obligations under capital lease – current portion	—	140,209
Obligations under other notes payable – current portion	29,050	28,602
Derivative liability	153,048	—
Other liabilities	47,369	48,669
Total current liabilities	6,087,090	3,896,413
LONG - TERM LIABILITIES		
Notes payable – stockholders	500,000	500,000
Other notes payable - net of current portion	29,110	48,371
Deferred rent, net of current portion	44,132	—
Term notes payable, net of current portion	—	166,667
Convertible promissory notes, net of debt discounts of $457,495 and $0 at September 30, 2015 and December 31, 2014, respectively	257,505	—
Total long-term liabilities	830,747	715,038
TOTAL LIABILITIES	6,917,837	4,611,451
STOCKHOLDERS' (DEFICIT) EQUITY		
Preferred stock, par value $0.0001 per share; 20,000,000 shares authorized; none issued and outstanding	—	—
Common stock, par value $0.0001 per share; 150,000,000 shares authorized; 44,632,569 issued and outstanding, at September 30, 2015 and 44,500,569 issued and outstanding at December 31, 2014	4,464	4,450
Additional paid-in capital	10,815,366	10,204,479
Treasury Stock, at cost 10,600 shares at September 30, 2015 and December 31, 2014, respectively	(5,890)	(5,890)
Accumulated deficit	(10,969,583)	(10,571,209
Other comprehensive loss	(4,383)	—
TOTAL STOCKHOLDERS' (DEFICIT)	(160,026)	(368,170)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$ 6,757,811	$ 4,243,281

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

Brekford Corp.

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET REVENUE	$ 5,776,862	$ 5,314,554	$ 14,586,453	$ 13,869,147
COST OF REVENUE	4,887,299	4,148,130	11,711,852	11,454,502
GROSS PROFIT	889,563	1,166,424	2,874,601	2,414,645
OPERATING EXPENSES				
Salaries and related expenses	485,740	485,530	1,482,003	1,419,126
Selling, general and administrative expenses	397,473	473,392	1,264,458	2,114,605
TOTAL OPERATING EXPENSES	883,213	958,922	2,746,461	3,533,731
INCOME (LOSS) FROM OPERATIONS	6,350	207,502	128,140	(1,119,086)
OTHER (EXPENSE)				
Interest expense	(64,651)	(46,465)	(181,382)	(118,172)
Change in fair value in derivative liability	(54,936)	—	(39,228)	—
Other expense	(129,410)	—	(305,905)	—
TOTAL OTHER (EXPENSE)	(248,997)	(46,465)	(526,515)	(118,172)
NET (LOSS) INCOME	$ (242,647)	$ 161,037	$ (398,375)	$ (1,237,258)
OTHER COMPREHENSIVE LOSS – foreign currency translation	(4,383)	—	(4,383)	—
COMPREHENSIVE (LOSS) INCOME	$ (247,030)	$ 161,037	$ (402,758)	$ (1,237,258)
(LOSS) INCOME PER SHARE – BASIC AND DILUTED	$ (0.01)	$ 0.00	$ (0.01)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC	44,632,569	44,500,569	44,630,151	44,999,287
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED	44,632,569	48,071,998	44,630,151	44,999,287

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

Brekford Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (398,375)	$ (1,237,258)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	150,627	686,963
Share based compensation	52,980	17,863
Deferred rent	44,131	(48,632)
Bad debt expense	—	49,163
Loss on disposal of property and equipment	—	319,739
Amortization of debt discount	257,505	—
Amortization of finance cost	35,924	—
Change in fair value of derivative liability	39,228	—
Changes In operating assets and liabilities:		
Accounts receivables	(2,133,049)	(1,197,389)
Unbilled Receivables	(291,921)	(100,767)
Prepaid expenses and other non-current assets	3,489	(21,707)
Inventory	(488,886)	495,964
Customer deposits	(511)	20,097
Accounts payable and accrued expenses	874,399	856,331
Accrued payroll and related expenses	57,962	(39,702)
Other payables	(1,300)	(962)
Deferred revenue	(173,451)	(318,192)
NET CASH (USED IN) OPERATING ACTIVITIES	(1,971,248)	(518,489)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	—	(30,293)
NET CASH USED IN INVESTING ACTIVITIES	—	(30,293)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in line of credit	1,441,126	(757,188)
Payments on – other notes payable	(18,813)	(25,989)
Borrowing on term notes	650,000	500,000
Payments on term notes	(187,500)	(20,833)
Deferred financing cost	(85,444)	—
Principal payments on capital lease obligations	(140,209)	(673,738)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,659,160	(977,748)
Effect of foreign currency translation	(4,383)	—
NET CHANGE IN CASH	(316,471)	(1,526,530)
CASH – Beginning of period	1,112,881	2,052,306
CASH – End of period	796,410	$ 525,776
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 181,382	$ 118,172
Cash paid for income taxes	$ 1,300	$ 962
Discount on notes payable	$ 41,590	—
Liabilities settled in exchange for equipment	$ —	$ 260,000

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

NOTE 1 – DESCRIPTION OF THE BUSINESS

Brekford Corp. (BFDI) headquartered in Hanover, Maryland is a leading public safety technology service provider of fully integrated traffic safety solutions, parking enforcement citation management and mobile technology equipment for public safety vehicle services to state and local municipalities, the U.S. Military and various federal public safety agencies throughout the United States. Brekford's combination of upfitting services, cutting edge technology, and automated traffic safety enforcement ("ATSE") services offers a unique 360º solution for law enforcement agencies and municipalities. Our core values of integrity, accountability, respect, and teamwork drive our employees to achieve excellence and deliver industry leading technology and services, thereby enabling a superior level of safety solutions to our clients. Brekford has one wholly owned subsidiary, Municipal Recovery Agency, LLC, a Maryland limited liability company, formed in 2012 for the purpose of providing collection systems and services for unpaid citations and parking fines.

As used in these notes, the terms "Brekford", "the Company", "we", "our", and "us" refer to Brekford Corp. and, unless the context clearly indicates otherwise, its consolidated subsidiary.

NOTE 2 – LIQUIDITY

For the nine months ended September 30, 2015, the Company incurred a net loss of $398,375 and used $1,971,248 of cash for operations and working capital. Additionally, at September 30, 2015 the Company had cash available of $796,410 and a working capital surplus of $363,139. No funds were available under the Company's credit facility as it was overdrawn by $110,684 above the $2.5 million credit limit (see Note 4) at September 30, 2015. This was caused by a minor timing issue with end of quarter shipments and approved by our lender, Rosenthal & Rosenthal, Inc. ("Rosenthal"). The Company began operations on its Saltillo, Mexico contract in April 2015 and funded its startup capital and other cash needs relating to this contract through the sale and issuance of a $650,000 convertible promissory note, net of original issuance discount, on March 17, 2015 (see Note 6). The Company expects this contract, as well as the overall Company, to generate positive cash flow for the period ending December 31, 2015. Through September 30, 2015, the Saltillo contract was generating positive cash flow.

Management believes that the Company's current level of cash combined with cash that it expects to generate in its operations during the next 12 months and funds available from the revolving credit facility will be sufficient to sustain the Company's business initiatives through at least September 30, 2016, but there can be no assurance that these resources will be adequate. In the event that projected cash flow does not meet expectations, management believes that the Company could take immediate action with respect to cost reductions to align future expenditures with existing revenue streams.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In our opinion, the accompanying unaudited interim condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our financial position, results of operations and cash flows. The condensed consolidated balance sheet at December 31, 2014, was derived from audited financial statements of that date. The interim condensed consolidated statements of operations are not necessarily indicative of the results that may be expected for any future interim period or the year ending December 31, 2015. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to instructions, rules and regulations prescribed by the United States Securities and Exchange Commission. We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited interim condensed consolidated financial statements are read in conjunction with the audited financial statements and notes previously distributed in our annual report on Form 10-K for the year ended December 31, 2014. Certain prior period information has been reclassified to conform to the current period presentation.

The Company's consolidated financial statements include the accounts of Brekford Corp. and its wholly owned subsidiary, Municipal Recovery Agency, LLC. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In the accompanying unaudited condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, sales returns, allowance for inventory obsolescence, fair value of long-lived assets, deferred taxes and valuation allowance, and the depreciable lives of fixed assets. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains cash accounts with major financial institutions. From time to time, amounts deposited may exceed the FDIC insured limits.

Accounts Receivable

Accounts receivable are carried at estimated net realizable value. The Company has a policy of reserving for uncollectable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company calculates the allowance based on a specific analysis of past due balances. Past due status for a particular customer is based on how recently payments have been received from that customer. Historically, the Company's actual collection experience has not differed significantly from its estimates, due primarily to credit and collections practices and the financial strength of its customers.

Inventory

Inventory principally consists of hardware and third party packaged software that is modified to conform to customer specifications and held temporarily until the completion of a contract. Inventory is valued at the lower of cost or market value. The cost is determined by the lower of first-in, first-out ("FIFO") method, while market value is determined by replacement cost for raw materials and parts and net realizable value for work-in- process.

Property and Equipment

Property and equipment is stated at cost. Depreciation of furniture, vehicles, computer equipment and software and phone equipment is calculated using the straight-line method over the estimated useful lives (two to ten years), and leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lease term (which is three to five years).

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Revenue Recognition

The Company recognizes revenue relating to its vehicle upfitting solutions when all of the following criteria have been satisfied: (i) persuasive evidence of an arrangement exists; (ii) delivery or installation has been completed; (iii) the customer accepts and verifies receipt; and (iv) collectability is reasonably assured. The Company considers delivery to its customers to have occurred at the time at which products are delivered and/or installation work is completed and the customer acknowledges its acceptance of the work.

The Company provides its customers with a warranty against defects in the installation of its vehicle upfitting solutions for one year from the date of installation. Warranty claims were insignificant for the three months and nine months ended September 30, 2015 and September 30, 2014. The Company also performs warranty repair services on behalf of the manufacturers of the equipment it sells. The Company also offers separately priced extended warranty and product maintenance contracts to its customers on the equipment sold by the Company. Revenues from extended warranty services are apportioned over the period of the extended warranty service contracts and the warranty costs are expensed as incurred. Revenue from extended warranties amounted to $39,166 and $211,100 for the three and nine months ended September 30, 2015, respectively, compared to $112,350 and $339,712, respectively, for the same periods of 2014.

The Company recognizes ATSE revenue when the required collection efforts are completed and the respective municipality is billed depending on the terms of the respective contract. The Company records revenue related to automated traffic violations for the Company's share of the violation amount.

Share-Based Compensation

The Company complies with the provisions of Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 718, *Compensation-Stock Compensation*, in measuring and disclosing stock based compensation cost. The measurement objective in ASC Paragraph 718-10-30-6 requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost is recognized in expense over the period in which an employee is required to provide service in exchange for the award (the vesting period). Performance-based awards are expensed ratably from the date that the likelihood of meeting the performance measures is probable through the end of the vesting period.

Treasury Stock

The Company accounts for treasury stock using the cost method. As of September 30, 2015, 10,600 shares of Brekford Corp. common stock were held in treasury at an aggregate cost of $5,890.

Income Taxes

The Company uses the liability method to account for income taxes. Income tax expense includes income taxes currently payable and deferred taxes arising from temporary differences between financial reporting and income tax bases of assets and liabilities. Deferred income taxes are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense, if any, consists of the taxes payable for the current period. Valuation allowances are established when the realization of deferred tax assets are considered more likely than not.

The Company files income tax returns with the U.S. Internal Revenue Service and with the revenue services of various states. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years prior to 2012. The Company's policy is to recognize interest related to unrecognized tax benefits as income tax expense. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

Loss per Share

Basic loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of shares of the Company's common stock, par value $0.0001 per share (the "Common Stock"), outstanding and does not include the effect of any potentially dilutive common stock equivalents. Diluted loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of shares of Common Stock outstanding, adjusted for the effect of any potentially dilutive common stock equivalents. There is no dilutive effect on the loss per share during loss periods. See Note 13 for the calculation of basic and diluted loss per share.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate their fair values based on the short-term maturity of these instruments. The carrying amount of the Company's promissory note obligations approximate fair value, as the terms of these notes are consistent with terms available in the market for instruments with similar risk.

We account for our derivative financial instruments, consisting solely of certain stock purchase warrants that contain non-standard anti-dilutions provisions and/or cash settlement features, and certain conversion options embedded in our convertible instruments, at fair value using Level 3 inputs, which are discussed in Note 14 to these condensed consolidated financial statements. We determine the fair value of these derivative liabilities using the Black-Scholes option-pricing model when appropriate, and in certain circumstances using binomial lattice models or other accepted valuation practices.

When determining the fair value of our financial assets and liabilities using the Black-Scholes option-pricing model, we are required to use various estimates and unobservable inputs, including, among other things, contractual terms of the instruments, expected volatility of our stock price, expected dividends, and the risk-free interest rate. Changes in any of the assumptions related to the unobservable inputs identified above may change the fair value of the instrument. Increases in expected term, anticipated volatility and expected dividends generally result in increases in fair value, while decreases in the unobservable inputs generally result in decreases in fair value.

Foreign Currency Transactions

The Company has certain revenue and expense transactions with a functional currency in Mexican pesos and the Company's reporting currency is the U.S. dollar. Assets and liabilities are translated from the functional currency to the reporting currency at the exchange rate in effect at the balance sheet date and equity at the historical exchange rates. Revenue and expenses are translated at rates in effect at the time of the transactions. Resulting translation gains and losses are accumulated in a separate component of stockholders' equity - other comprehensive income (loss). Realized foreign currency transaction gains and losses are credited or charged directly to operations.

Segment Reporting

FASB ASC Topic 280, *Segment Reporting*, requires that an enterprise report selected information about operating segments in its financial reports issued to its stockholders. Based on its current analysis, management has determined that the Company has only one operating segment, which is Traffic Safety Solutions. The chief operating decision-makers use combined results to make operating and strategic decisions, therefore, the Company believes its entire operation is covered under a single segment.

Recent Accounting Pronouncements

In May 2014, the FASB amended the ASC and created Topic 606, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue. This guidance will be effective for the Company beginning January 1, 2018 and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. We have not yet determined the effects of this new guidance on our financial statements.

In August 2014, the FASB issued a new U.S. GAAP accounting standard that provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new accounting standard requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The new accounting standard is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

Accounting Standards Update No. 2015-03*, Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs.* The amendments in this update require the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal periods. Early adoption of the amendments in this update is permitted for financial statements that have not been previously issued. The Company intends to adopt this requirement in 2016, and currently anticipates that the impact of adoption will solely be a reclassification of its deferred financing costs from asset classification to contra-liability classification.

NOTE 4 – LINE OF CREDIT AND NOTES PAYABLE

On May 27, 2014, Brekford Corp. closed (the "Closing") on an aggregate $3.0 million credit facility (the "Credit Facility") with Rosenthal as lender consisting of $2.5 million in revolving loans (the "Revolving Facility") and a $500,000 non-revolving loan (the "Term Loan"). The terms and conditions of the Credit Facility are set forth in a Financing Agreement between the Company and Rosenthal dated May 27, 2014 (the "Financing Agreement"). The Term Loan is additionally evidenced by a Term Note issued by the Company in favor of Rosenthal. The maximum amount that the Company may borrow from time to time under the Revolving Facility will be the lesser of $2.5 million or the "Loan Availability" (as defined in the Financing Agreement), which is tied to the amount of the Company's "Eligible Receivables" (as defined in the Financing Agreement) and the amount of its "Eligible Inventory" (as defined in the Financing Agreement). Interest on the unpaid principal balances due under the Credit Facility is payable monthly in arrears. Amounts borrowed under the Revolving Facility that do not exceed the "Receivable Availability" (as defined in the Financing Agreement) will bear interest at an annual rate equal to the prime rate from time to time publicly announced in New York City by JPMorgan Chase Bank (the "Prime Rate") plus 2.5%; amounts borrowed under the Revolving Facility that relate to the "Inventory Availability" (as defined in the Financing Agreement) will bear interest at an annual rate equal to the Prime Rate plus 3.0% (the "Inventory Rate"); and any amounts that, on any day, exceed the Loan Availability will bear interest at an annual rate equal to the Inventory Rate plus 4.0%; provided, however, that the Prime Rate will never be deemed to be less than 4.0%. The Company agreed to pay a minimum of $3,000 in monthly interest under the Revolving Facility, as well as a $1,000 monthly loan administration fee. In addition, the Company agreed to pay Rosenthal a facility fee at the Closing in the amount of $30,000. At each annual renewal of the Financing Agreement, the Company will pay Rosenthal a facility fee in the amount of $18,750.

The Company's obligations under the Financing Agreement and related documents are secured by a continuing lien on and security interest in substantially all of the Company's assets. The Company's repayment obligations under the Revolving Facility are due on demand by Rosenthal or, at Rosenthal's option, upon the expiration of the Financing Agreement and/or the occurrence of an event of default thereunder. The original term of the Financing Agreement will expire on May 31, 2016 but will automatically renew for successive one-year terms unless the Company elects not to renew the Financing Agreement by providing at least 60 days' prior written notice thereof to Rosenthal. Rosenthal may terminate the Financing Agreement at any time upon 60 days' prior written notice to the Company.

The Credit Facility replaced the Company's $2.0 million credit facility with PNC Bank, National Association ("PNC"), under that certain Loan Agreement, dated as of June 28, 2012, as amended (the "PNC Facility"), and refinanced the amounts that were due under the PNC Facility. At the Closing, the Company paid approximately $1,030,707 to PNC in satisfaction of its obligations under the PNC Facility. In addition, the Company used proceeds from the Credit Facility, totaling approximately $310,649, to satisfy its obligations to Bank of America, N.A., under its Master Lease Agreement, dated as of December 13, 2011. As of September 30, 2015, we were out of compliance with one of the financial covenants contained in the Credit Facility as a result of the loss recorded for the nine months ended September 30, 2015. Additionally the Company was overdrawn under the Revolving Facility by $110,684 at September 30, 2015 due to timing with end of quarter shipments. Rosenthal consented to the overdraw. For the covenant non-compliance, we have received a waiver from Rosenthal.

The Company financed certain vehicles and equipment under finance agreements. The agreements mature at various dates through December 2017. The agreements require various monthly payments of principal and interest until maturity. As of September 30, 2015 and December 31, 2014, financed assets of $54,796 and $83,053, respectively, net of accumulated amortization of $87,120 and $58,863, respectively, are included in property and equipment on the balance sheets. The weighted average interest rate was 2.96% at September 30, 2015 and 3.75% at December 31, 2014.

NOTE 5 – CONVERTIBLE NOTES PAYABLE – STOCKHOLDERS

Brekford Corp. financed the repurchase of shares of its common stock, par value $0.0001 per share (the "Common Stock"), and warrants from the proceeds of convertible promissory notes that were issued by Brekford Corp. on November 9, 2009 in favor of a lender group that included two of its directors, Messrs. C.B. Brechin and Scott Rutherford, in the principal amounts of $250,000 each (each, a "Stockholder Note" and together, the "Stockholder Notes"). Each Stockholder Note bears interest at the rate of 12% per annum and at the time of issuance was to be convertible into shares of Common Stock, at the option of the holder, at an original conversion price of $.07 per share. At the time of issuance, Brekford agreed to pay the unpaid principal balance of the Stockholder Notes and all accrued but unpaid interest on the date that was the earlier of (i) two years from the issuance date or (ii) 10 business days after the date on which Brekford Corp. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On April 1, 2010, Brekford Corp. and each member of the lender group executed a First Amendment to the Unsecured Promissory Note, which amended the Promissory Notes as follows:

- Revise the conversion price in the provision that allows the holder of the Promissory Note to elect to convert any outstanding and unpaid principal portion of the Promissory Note and any accrued but unpaid interest into shares of the common stock at a price of fourteen cents ($0.14) per share, and

- Each Promissory Note's maturity date was extended to the earlier of (i) four years from the issuance date or (ii) 10 business days after the date on which Brekford closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On November 8, 2013, Brekford Corp. and each member of the lender group agreed to further extend the maturity dates of the Promissory Notes to the earlier of (i) November 9, 2014 or (ii) 10 business days after the date on which Brekford Corp. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On November 14, 2014, the maturity dates of the Stockholder Notes were extended to the earlier of (i) November 9, 2015 or (ii) 10 business days from the date on which Brekford Corp. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On November 9, 2015, the maturity dates of the Stockholder Notes were extended to the earlier of (i) November 9, 2016 or (ii) 10 business days from the date on which Brekford Corp. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

The Company anticipates the maturity date of the Stockholder Notes will continue to be extended for the foreseeable future; thus, they are classified as long term liabilities. As of September 30, 2015 and December 31, 2014, the amounts outstanding under the Stockholder Notes totaled $500,000.

NOTE 6 – CONVERTIBLE PROMISSORY NOTES PAYABLE - INVESTOR

On March 17, 2015, the Company entered into a note and warrant purchase agreement (the "Agreement") with an accredited investor (the "Investor") pursuant to which the Investor purchased an aggregate principal amount of $715,000 of a 6% convertible promissory note issued by the Company for an aggregate purchase price of $650,000 (the "Investor Note"). The Investor Note bears interest at a rate of 6% per annum and the principal amount is due on March 17, 2017. Any interest that accrues under the Investor Note is payable either upon maturity or upon any principal being converted on any voluntary conversion date (as to that principal amount then being converted). The Investor Note is convertible at the option of the Investor at any time into shares of Common Stock at a conversion price equal to the lesser of (i) $0.25 per share and (ii) 70% of the average of the lowest three volume weighted average prices for the twelve (12) trading days prior to such conversion (the "Conversion Price"). In no event can the Conversion Price be less than $0.10; provided, however, that if on or after the date of the Agreement the Company sells any Common Stock or Common Stock Equivalents (as defined in the Agreement) at an effective price per share that is less than $0.10 per share, then the Conversion Price shall be equal to the par value of the Common Stock then in effect. In connection with the Agreement, the Investor received a warrant to purchase 780,000 shares of Common Stock (the "Warrant"). The Warrant is exercisable for a period of five years from the date of issuance at an exercise price of $0.50 per share, subject to adjustment (the "Exercise Price").

The following table provides information relating to the Investor Note at September 30, 2015:

		2015
Convertible promissory note payable	$	715,000
Original issuance discount, net of amortization of the $23,410 as of September 30, 2015		(41,590)
Beneficial conversion feature, net of amortization of $200,933 as of September 30, 2015		(356,988)
Warrant feature, net of amortization of the $33,162 as of September 30, 2015		(58,917)
Convertible promissory note payable, net	$	257,505

We evaluated the financing transactions in accordance with ASC Topic 470, *Debt with Conversion and Other Options*, and determined that the conversion feature of the Investor Note was afforded the exemption for conventional convertible instruments due to its fixed conversion rate. The Investor Note has an explicit limit on the number of shares issuable so it did meet the conditions set forth in current accounting standards for equity classification. The debt was issued with non-detachable conversion options that are beneficial to the investors at inception, because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The accounting for the beneficial conversion feature requires that the beneficial conversion feature be recognized by allocating the intrinsic value of the conversion option to additional paid-in-capital, resulting in a discount on the convertible notes, which will be amortized and recognized as interest expense.

Accordingly, a portion of the proceeds was allocated to the Warrant based on its relative fair value, which totaled $92,079 using the Black Scholes option-pricing model. Further, the Company attributed a beneficial conversion feature of $557,921 to the shares of Common Stock issuable under the Investor Note based upon the difference between the effective Conversion Price and the closing price of the Common Stock on the date on which the Investor Note was issued. The assumptions used in the Black-Scholes model are as follows: (i) dividend yield of 0%; (ii) expected volatility of 80.5%, (iii) weighted average risk-free interest rate of 1.56%, (iv) expected life of five years, and (v) estimated fair value of the Common Stock of $0.26 per share. The expected term of the Warrant represents the estimated period of time until exercise and is based on historical experience of similar awards giving consideration to the contractual terms. The Company recorded amortization of the beneficial conversion feature and warrant feature of the Investor Note as interest expense in the amount of $200,933 and $23,410, respectively, during the nine months ended September 30, 2015.

The Company recorded an original issue discount of $65,000 to be amortized over the term of the Agreement as interest expense. The Company recognized $33,162 of interest expense as a result of the amortization during the nine months ended September 30, 2015.

On October 23, 2015, the Investor converted $25,000 of principal and $904 of accrued interest due under the Investor Note into 169,530 shares of Common Stock. (See Note 15 - Subsequent Events).

NOTE 7 – WARRANT DERIVATIVE LIABILITY

On March 17, 2015, in conjunction with the issuance of the Investor Note (see Note 6), the Company issued the Warrant, which permits the Investor to purchase 840,000 shares of Common Stock, including 60,000 related to the financing costs, with an exercise price of $0.50 per share and a life of five years.

The Exercise Price is subject to anti-dilution adjustments that allow for its reduction in the event the Company subsequently issues equity securities, including shares of Common Stock or any security convertible or exchangeable for shares of Common Stock, for no consideration or for consideration less than $0.50 a share. The Company accounted for the conversion option of the Warrant in accordance with ASC Topic 815. Accordingly, the conversion option is not considered to be solely indexed to the Company's own stock and, as such, is recorded as a liability. The derivative liability associated with the Warrant has been measured at fair value at March 17, 2015 and September 30, 2015 using the Black Scholes option-pricing model. The assumptions used in the Black-Scholes model are as follows: (i) dividend yield of 0%; (ii) expected volatility of 80.5%; (iii) weighted average risk-free interest rate of 1.37-1.56%; (iv) expected life of five years; and (v) estimated fair value of the Common Stock of $0.18-$0.26 per share.

At September 30, 2015, the outstanding fair value of the derivative liability was $153,048.

NOTE 8 – LEASES

Capital Leases

The Company financed certain equipment under separate non-cancelable equipment loan and security agreements. The agreements matured in April 2015. The agreements required various monthly payments and were secured by the assets under lease. At September 30, 2015 and December 31, 2014, no capital lease was included in property and equipment on the consolidated balance sheets.

Operating Leases

The Company rents office space under separate non-cancelable operating leases. Rent expense under our main headquarters lease, expiring on April 30, 2020 amounted to $126,486 and $110,920 for the nine months ended September 30, 2015 and 2014, respectively.

The Company also leases approximately 2,500 square feet of office space from a related party under a non-cancelable operating lease expiring on June 30, 2016. Rent expense under this lease amounted to $36,900 and $35,100 for the nine months ended September 30, 2015 and 2014, respectively.

NOTE 9 – MAJOR CUSTOMERS AND VENDORS

Major Customers

The Company has several contracts with government agencies, of which net revenue from one major customer during the nine months ended September 30, 2015 represented 23% of the total net revenue for the period. Accounts receivable due from three customers at September 30, 2015 amounted to 60% of total accounts receivable.

For the nine-month period ended September 30, 2014, the Company had several contracts with government agencies, of which net revenue from two major customers represented 21% of the total net revenue for the period. Accounts receivable due from two customers at September 30, 2014 amounted to 65% of total accounts receivable. Accounts receivable due from these two customers at December 31, 2014 amounted to 53% of total accounts receivable at that date.

Major Vendors

The Company purchased substantially all hardware products that it resold during the periods presented from one major distributor. Revenues from hardware products amounted to 47% and 54% of total revenues for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 and 2014, accounts payable due to this distributor amounted to 43% and 34% of total accounts payable, respectively.

Accounts payable due to these distributors at December 31, 2014, amounted to 53% of total accounts payable at that date.

NOTE 10 - STOCKHOLDERS' EQUITY

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On September 7, 2010, Brekford Corp. issued a press release announcing that its board of directors authorized a stock repurchase program permitting the Company to repurchase up to $500,000 in outstanding shares of the Common Stock from time to time over a period of 12 months in open market transactions or in privately negotiated transactions at the Company's discretion. The stock repurchase program was subsequently extended for an additional 12 months until September 7, 2012. On September 28, 2012, the Company adopted a new stock repurchase program which permits the Company to repurchase the $363,280 in shares that remained available for repurchase under the old program, with the same terms and conditions except that the term of the new stock repurchase program was 24 months. The repurchase plan expired in September 2014.

Warrants

The assumptions used to value warrant grants during the nine months ended September 30, 2015, which consisted solely of the Warrant, were as follows:

	Nine months ended September 30, 2015
Expected life (in years)	5.00
Volatility	80.5%
Risk free interest rate	1.56%
Expected Dividend Rate	0

Summary of the warrant activity for nine months ended September 30, 2015 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	—	$ —	—	$ 0.00
Granted	840,000	0.50	4.46	0.00
Forfeited or expired	—	—	—	0.00
Exercised	—	—	—	
Outstanding at September 30, 2015	840,000	0.50	4.46	0.00
Exercisable at September 30, 2015	840,000	0.50	4.46	0.00

The weighted average remaining contractual life of warrants outstanding as of September 30, 2015 was as follows:

Exercisable Prices	Stock Warrants Outstanding	Stock Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$ 0.50	840,000	840,000	4.46
Total	840,000	840,000	4.46

NOTE 11 – SHARE-BASED COMPENSATION

The Company has issued shares of Common Stock and warrants to purchase shares of Common Stock and has granted non-qualified stock options to certain employees and non-employees. On April 25, 2008, the Company's stockholders approved the 2008 Stock Incentive Plan (the "2008 Incentive Plan"). During the nine months ended September 30, 2015, Brekford Corp. granted stock options under the 2008 Incentive Plan to its non-employee directors. These options have exercise prices equal to the fair market value of a share of Common Stock as of the date of grant and have terms of ten years.

Stock Options

Option grants during the nine months ended September 30, 2015 were primarily made to non-employee directors who elected to receive options for their Board service. The options had a grant date fair value of $0.12 per share and will vest and become exercisable with respect to option shares over a three year period commencing from the date of grant at a rate of 33.33% per year. The Company recorded $4,360 and $8,100 in stock option compensation expense during the three and nine-month periods ended September 30, 2015, respectively, related to the stock option grants.

Summary of the option activity for nine months ended September 30, 2015 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	225,000	$ 0.20	4.15	$ 0.00
Granted	225,000	$ 0.24	3.50	0.00
Forfeited or expired	(50,000)	—	—	0.00
Exercised	—	—	—	
Outstanding at September 30, 2015	400,000	$ 0.20	3.50	$ 0.00
Exercisable at September 30, 2015	75,000	$ 0.20	3.50	$ 0.00
Vested and expected to vest	325,000	$ 0.20	3.50	$ 0.00

The unrecognized compensation cost for unvested stock option awards outstanding at September 30, 2015 was approximately $40,474 to be recognized over approximately 3.5 years.

Stock Grants

During the nine months ended September 30, 2015, the Company granted an aggregate of 132,000 shares of Common Stock to key employees in consideration of services rendered and part of employment agreement. The weighted average value of the shares amounted to $0.34 per share based upon the closing price of shares of Common Stock on the date of the grant. These shares were fully vested on the date of the grant. The Company recorded $44,880 in share-based compensation expense during the nine month period ended September 30, 2015 related to stock grants. For the nine months ended September 30, 2014, the Company recorded $13,500, in share-based compensation expense related to stock grants.

	Shares	Weighted Average Value
Nonvested restricted stock at January 1, 2015	—	$ —
Granted	132,000	0.34
Vested	(132,000)	0.34
Forfeited or expired	—	—
Nonvested restricted stock at September 30, 2015	—	$ —

NOTE 12 – INVENTORY

As of September 30, 2015 and December 31, 2014, inventory consisted of the following:

	September 30, 2015	December 31, 2014
Raw Materials	$ 1,086,608	$ 579,279
Work in Process	84,226	102,669
Total Inventory	$ 1,170,834	$ 681,948

NOTE 13 – NET LOSS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic net loss per share :				
Net (loss) income	$ (242,647)	$ 161,037	$ (398,375)	$ (1,237,258)
Weighted average common shares outstanding	44,632,569	44,500,569	44,630,151	44,999,287
Basic net loss per share	$ (0.01)	$ 0.00	$ (0.01)	$ (0.03)
Diluted net loss per share :				
Net (loss) income	$ (242,647)	$ 161,037	$ (398,375)	$ (1,237,258)
Weighted average common shares outstanding	44,632,569	44,500,569	44,630,151	44,999,287
Potential dilutive securities	—	3,571,429	—	—
Weighted average common shares outstanding – diluted	44,632,569	48,071,998	44,630,151	44,999,287
Diluted earnings per share	$ (0.01)	$ 0.00	$ (0.01)	$ (0.03)
Common stock equivalents excluded due to anti-dilutive effect	9,067,311	225,000	9,067,311	3,796,429

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures about fair value of financial instruments require disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of September 30, 2015, the amounts reported for cash, accrued interest and other expenses, notes payables, and derivative liability approximate their fair values because of their short maturities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at September 30, 2015:

	Total	(Level 1)	(Level 2)	(Level 3)
Liabilities				
Derivative liability	153,048	—	—	153,048
Total liabilities measured at fair value	$ 153,048	$ —	$ —	$ 153,048

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

Beginning balance as of December 31, 2014	$ —
Fair value of derivative liabilities issued	113,820
Gain on change in derivative liability	39,258
Ending balance as of September 30, 2015	$ 153,048

NOTE 15— SUBSEQUENT EVENTS

On October 23, 2015, the Investor converted $25,000 of principal and $904 of accrued interest due under the Investor Note into 169,530 shares of Common Stock.

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

The following discussion and analysis presents a review of the condensed operating results of Brekford Corp. for the three and nine months ended September 30, 2015 and 2014 and the financial condition of Brekford Corp. at September 30, 2015. The discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes included herein, as well as Brekford Corp.'s audited financial statements that were included in its Annual Report on Form 10-K for the year ended December 31, 2014.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including those that include the words "anticipate", "estimate", "should", "will", "expect", "believe", "intend", and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which we operate, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this Quarterly Report; general economic, market, or business conditions and their effects; industry competition, conditions, performance and consolidation; changes in applicable laws or regulations; changes in the budgets and/or public safety priorities of our customers; economic or operational repercussions from terrorist activities, war or other armed conflicts; the availability of debt and equity financing; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations.

Forward-looking statements speak only as of the date the statements are made. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. If we update one or more forward-looking statements, then no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

As used in this Quarterly Report, the terms "Brekford", "the Company", "we", "our", and "us" refer to Brekford Corp. and, unless the context clearly indicates otherwise, its consolidated subsidiary.

Overview

Brekford Corp. (BFDI) headquartered in Hanover, Maryland is a leading public safety technology service provider of fully integrated traffic safety solutions, parking enforcement citation management, and mobile technology equipment for public safety vehicle services to state and local municipalities, the U.S. Military and various federal public safety agencies throughout the United States. Brekford's combination of upfitting services, cutting edge technology, and automated traffic safety enforcement ("ATSE") services offers a unique 360º solution for law enforcement agencies and municipalities. Our core values of integrity, accountability, respect, and teamwork drive our employees to achieve excellence and deliver industry leading technology and services, thereby enabling a superior level of safety solutions to our clients. Brekford has one wholly owned subsidiary, Municipal Recovery Agency, LLC, a Maryland limited liability company, formed in 2012 for the purpose of providing collection systems and services for unpaid citations and parking fines.

Products and Services

Public safety is a major concern for most communities – especially as populations grow, public safety budgets are reduced. One way to help make streets safer while reducing workload is a well-run photo red light or speed enforcement program. The objective of photo enforcement is to help curtail aggressive driving through voluntary compliance. Revenue generated from fines routinely goes directly back into supporting other public safety initiatives.

Although opponents of red light cameras cite the increase in rear end collisions as cause for disapproval of cameras, a study conducted in February 2011 by the Insurance Institute for Highway Safety (the "IIHS") reported that red-light cameras reduced fatal red light running crashes by 24% in 14 large U.S. cities with populations over 200,000. IIHS concluded that if red light cameras had been operating in all 99 U.S. cities with populations over 200,000 during this study period (five years), a total of 815 deaths could have been avoided. Because the types of crashes prevented by red light cameras tend to be far more severe than rear-end crashes, research has shown there is a positive aggregate benefit. Photo enforcement solutions can reduce collisions, injuries and deaths by providing a useful tool for municipalities and law enforcement agencies, without unduly taxing drivers who do not break the law. Today, nearly 600 communities across the U.S. operate red light or speed camera enforcement programs.

Regardless of the increased safety effects and prevention of fatalities, there is still a common misconception that automated traffic safety enforcement systems are not supported by the general public. An IIHS survey conducted in November 2012 found that a large majority of people living in Washington, D.C., one of the largest combined red light and speed enforcement programs in the U.S., favor camera enforcement. Of those surveyed, 87% support red light cameras and 76% support speed cameras. Even the majority of violators (59%) agreed that they deserved their most recent citation. In 2012, IIHS reported that 633 people were killed and an estimated 133,000 were injured in crashes that involved red light running. Speeding was a factor in 31% of motor vehicle crash deaths in 2012.

Brekford's ATSE products offer intersection safety (red light), photo speed, and work zone enforcement options by way of a complete suite of solution-based products. By assembling a team of industry professionals with extensive experience in this field, we have developed equipment and a full turnkey solution that we believe will ensure the success of any program. Having the advantage of a team with experience, we have created and implemented some of the most cutting-edge features into our design – while constructing end-to-end systems specifically with our clients' needs in mind.

Automated Traffic Safety Enforcement - Photo Speed & Red Light Enforcement

ATSE systems are one of a wide range of measures that are effective at reducing vehicle speeds and crashes. The ATSE system is an enforcement technique with one or more motor vehicle sensors producing recorded images of motor vehicles traveling at speeds above a defined threshold. Images captured by the ATSE system are processed and reviewed in an office environment and violation notices are mailed to the registered owner of the identified vehicle. ATSE is a technology available to law enforcement as a supplement and not a replacement for traditional enforcement operations. Evaluations of ATSE, both internationally and in the United States have identified some advantages over traditional speed enforcement methods. These include:

- High rate of violation detection. ATSE units can detect and record multiple violations per minute. This can provide a strong deterrent effect by increasing drivers' perceived likelihood of being cited for speeding.

- Physical safety of ATSE operators and motorists. ATSE can operate at locations where roadside traffic stops are dangerous or infeasible, and where traffic conditions are unsafe for police vehicles to enter the traffic stream and stop suspected violators. With ATSE there is normally no vehicle pursuit or confrontation with motorists. ATSE might also reduce the occurrence of traffic congestion due to driver distraction caused by traffic stops on the roadside.

- Fairness of operation. Violations are recorded for all vehicles traveling in excess of the enforcement speed threshold. Efficient use of resources. ATSE can act as a "force multiplier," enhancing the influence of limited traffic enforcement staff and resources.

Beyond traditional tax collection on income or property, state agencies and local municipalities rely heavily on fine and fee revenue generated from a multitude of violator-funded sources. For example, jurisdictions generate sizable revenues from court fees, traffic and parking violations, ordinance infractions, and library and utility arrearages. Each of these revenue sources funds public safety and community development initiatives and without the income, the services are curtailed. Brekford offers client-specific solutions to these agencies and municipalities to assist them with collecting unpaid fines, including:

- Notification continuance
- Mail house and printing
- Data purification and verification
- Back office support
- Call center response (inbound & out bound)
- Lock-box & treasury
- Payment processing

Electronic Ticketing System - Slick-Ticket ™

Many of today's law enforcement agencies are struggling to balance the increasing demand from their citizens for more services with limited and/or declining budgets. One of the easiest and most cost-effective ways agencies can address this issue is by deploying an electronic ticketing, or E-Ticketing solution. Automating the ticket issuing and processing system can significantly decrease cost, increase productivity and improve officer safety.

Brekford offers a unique functionality that streamlines the data entry process even further. Many law enforcement agencies that have deployed a mobile data system run background queries from national (NCIC), state, and local databases and Brekford's solution captures the data from these mobile query files and auto-populates all of the requisite data into the electronic citation (E-Tix) form on the screen. Brekford's Slick-Ticket ™ product is a fully portable, over-the-seat organizer for public safety vehicles, specially designed to house a printer and scanner to allow law enforcement officers to quickly access driver's license and registration information as well as issue tickets, warnings and citations.

Rugged Information Technology Solutions – Mobile Data & Digital Video

Law enforcement agency, fire department and EMS personnel have unique requirements for fleet vehicle upfitting and IT equipment to include characteristics such as ruggedness and reliability. The equipment must be able to work in extreme environments that include high levels of vibration and shock, wide temperature ranges, varying humidity, electromagnetic interference as well as voltage and current transients. Our rugged and non-rugged IT products and mobile data communication systems provide public safety workers with the unique functionalities necessary to enable effective response to emergency situations.

For more than a decade, Brekford has been a distributor for most major brands in the mobile technology arena. We handle everything from Panasonic Toughbooks® and Arbitrator® digital video systems to emergency lighting systems and wireless technology. We believe that we have all of the high-end products our customers need to handle their day-to-day operations and protect the public they serve. Every product we sell is tested by highly trained technicians and guaranteed to work in even the most extreme conditions. We specialize in seamlessly incorporating custom-built solutions within existing networks. We deliver our end-to-end solutions with service programs that work for agencies large and small, from turnkey drop shipping to municipal leases. Our commitment is to design and deliver solutions that meet or exceed industry standards for safety, ergonomics, reliability, serviceability and uniformity.

We develop integrated, interoperable, feature-rich mobile systems that enable first responders, such as police, fire and EMS, to obtain and exchange information in real time. The rapid dissemination of real time information is critical to determine and assure timely and precise resource allocation by public sector decision makers. As a premiere Panasonic Toughbook partner, we augment these rugged laptops by designing and manufacturing vehicle mounting systems and docking stations for in-vehicle communications equipment. With rugged laptop computers, tablets and hand-helds devices, GPS terminals, two-way radios, and full console systems, we provide ergonomically sound mounting products with full port replication.

Toughbook Arbitrator is a rugged revolution in law enforcement video capture. The fully integrated system offers unparalleled video capture (up to 360 degrees), storage and transfer, and is designed to work with back-end software for seamless video management, including archiving and retrieving. Brekford augments this solution with an Automatic License Plate Reader (ALPR / LPR), an image-processing technology used to identify vehicles by their license plates. License Plate Readers (LPRs) can record plates at about one per second at speeds of up to 70 MPH and they often utilize infrared cameras for clarity and to facilitate reading at any time of day or night. The data collected can either be processed in real-time, at the site of the read, or it can be transmitted to remote centers and processed at a later time. When combined with wearable body cameras, our total client solution provides a video capture solution that maintains the chain of evidence from the initial event through to court proceedings.

360° Vehicle Solution - Upfitting

The Brekford 360-degree vehicle solution provides complete vehicle upfitting, mobile data and video solutions including municipal financing and leasing services for agencies. The 360-degree vehicle solutions approach provides customers with a one-stop upfitting, cutting edge technology and installation service. The 360-degree approach is the only stop our customers need to purchase law enforcement vehicles (GM, Ford, Dodge), have them upfitted with lights, sirens, radio communication and rugged IT technology, and then have them “ready to roll”. Our mission is to provide and install equipment that ensures safe and efficient mission critical vehicles while incorporating the latest technological advances. We adhere to strict quality control procedures and provide comprehensive services. The Brekford certified installation team provides our customers the highest level of expertise and service from inception to completion, including maintenance and upgrades.

We distinguish ourselves by truly being a “one-stop shop” for vehicle upfitting, cutting edge technology, and installation services. Unlike our competitors, we provide customers with one place to purchase law enforcement vehicles that are not only upfitted with the traditional lights and sirens but also with rugged IT hardware and communications equipment. Our 360-degree engineered bumper-to-bumper vehicle solution, our commitment to top quality, fast, reliable service, along with our streamlined purchasing process is why we believe Brekford is the best all-around vehicle and automated traffic enforcement technology solutions provider.

Results of Operations

Results of Operations for the Nine-Month Periods Ended September 30, 2015 and 2014

The following tables summarize and compare selected items from the statements of operations for the nine–month periods ended September 30, 2015 and 2014.

	Nine Months Ended September 30,		(Decrease) / Increase	
	2015	2014	$	%
Net Revenues	$ 14,586,453	$ 13,869,147	$ 717,306	5.2%
Cost of Revenues	11,711,852	11,454,502	257,350	2.3%
Gross Profit	$ 2,874,601	$ 2,414,645	$ 459,956	19.1%
Gross Profit Percentage of Revenue	19.7%	17.4%		

Revenues

Revenues for the nine months ended September 30, 2015 amounted to $14,586,453 as compared to revenues of $13,869,147 for the nine months ended September 30, 2014, representing an increase of $717,306 or 5.2%. The overall increase was driven by ATSE services of 31.9%, with vehicle services contributing a slight increase at 1.6%. ATSE services growth was primarily driven by recurring revenue contributed from our Saltillo, Mexico program as well as slight increases from our U.S. clients who have transitioned to flat fee contract structures. For the nine months ended September 30, 2015, ATSE paid citations amounted to 124,130 from 53 cameras as compared to 81,374 from 43 cameras for the nine months ended September 30, 2014, representing an increase of 42,756 or 53%.

In April 2015, the Company began operations on its Saltillo, Mexico program which has resulted in recurring revenue from the City of Saltillo, Mexico under an exclusive agreement signed in 2014 with Grupo Canviso Tec ("Canviso"), a Mexican Corporation, for the purposes of supplying turnkey ATSE services to cities and municipalities in Mexico. As of June 30, 2015, the Company had installed all necessary technology and communications infrastructure to operate the Saltillo program as well as other programs as they are added, with Saltillo being the main operations hub for the entire country. As of September 30, 2015, there were ten speed photo enforcement cameras in live operation, with an additional six cameras that went live in October 2015. The agreement contemplates the installation of up to 210 speed, red light, and cell phone cameras throughout the City as program needs dictate, and the Company is working closely with Canviso and the City to plan future phases of the rollout. Also, the City has yet to begin substantial enforcement operations for the collection of past due fines which totaled approximately $15.6 million as of September 30, 2015. Enforcement operations began in October 2015. A total of 27,006 collected citations have been processed from the ten cameras as of September 30, 2015.

Cost of Revenues

Cost of revenues for the nine months ended September 30, 2015 amounted to $11,711,852 as compared to $11,454,502 for the nine months ended September 30, 2014, an increase of $257,350 or 2.3%. The increase was primarily driven by higher direct labor costs for upfitting services in conjunction with the increased volume and revenue for upfitting projects. Ongoing operational efficiencies with ATSE services, with lower labor and materials required to maintain cameras, contributed to decreased costs despite the increased revenues, thus resulting in the modest overall increase of 2.3%.

Gross Profit

Gross profit for the nine months ended September 30, 2015 amounted to $2,874,601 as compared to $2,414,645 for the nine months ended September 30, 2014, an increase of $459,956 or 19.1%. Two key drivers of the increase were a higher percentage of revenues from ATSE services as well as a higher gross margin from ATSE services as a result of the operational efficiencies noted above. Overall gross margin for the nine months ended September 30, 2015 was 19.7% as compared to 17.4% for the nine months ended September 30, 2014. ATSE gross margin for the nine months ended September 30, 2015 was 68.7% as compared to 52.9% for the nine months ended September 30, 2014. Vehicle services gross margin for the nine months ended September 30, 2015 was 11.1% as compared to 12.6% for the nine months ended September 30, 2014. For the full year 2015, the Company expects ATSE gross margin to approximate 65% and vehicle services gross margin to approximate 12%. As contributed revenues from ATSE services continue to rise as a percentage of overall revenues, we anticipate continued growth in the Company's overall gross margin.

Expenses

	Nine Months Ended September 30,		Increase / (Decrease)	
	2015	2014	$	%
OPERATING EXPENSES				
Salaries and related expenses	$ 1,482,003	$ 1,419,126	$ 62,877	4.4%
Selling, general and administrative expenses	1,264,458	2,114,605	(850,147)	(40.2) %
Total operating expenses	$ 2,746,641	$ 3,533,731	$ (787,090)	(22.3) %

Salaries and Related Expenses

Salaries and related expenses for the nine months ended September 30, 2015 amounted to $1,482,003 as compared to $1,419,126 for the nine months ended September 30, 2014, an increase of $62,877 or 4.4%. The increase was due to higher costs for corporate support labor, increased sales commissions, higher health insurance costs, and issuance of shares of restricted stock, offset by reductions in program support labor for ATSE services. The Company has to date incurred only slight increases in overall labor costs; however, management believes that certain infrastructure costs associated with sales and marketing efforts are a key to renewed growth. As such, the Company intends to continue focusing on these efforts through a coordinated international strategy in regaining sustained profitability.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2015 amounted to $1,264,458 as compared to $2,114,605 for the nine months ended September 30, 2014, a decrease of $850,147 or 40.2%. The decrease was primarily driven by lower depreciation expense as certain obsolete assets had been disposed of during the same period of 2014 and the Company has not incurred significant additional capital expenditures since 2014.

Other Expenses, net

Total other expenses for the nine months ended September 30, 2015 amounted to $526,515 as compared to $118,172 for the nine months ended September 30, 2014, an increase of $408,345 or 345.5%. The increased expenses were due primarily to a net increase in financing cost of $369,114 that includes non-cash interest expense related to the original issue discount of $23,410 and debt discount amortization of $234,095 offset by an increase in warrant liability of $39,228 related to the March 2015 issuance of a $650,000 convertible promissory note that matures in March 2017 (the "Investor Note") and a related five-year common stock purchase warrant (the "Warrant"). The remainder of the increase was due to an increase in cash interest expense associated with balances on the Company's revolving line of credit.

Net Loss

Net loss for the nine months ended September 30, 2015 amounted to $398,375 compared to a net loss of $1,237,258 for the nine months ended September 30, 2014, a decrease of $838,883 or 67.8%. The decrease was primarily due to higher overall gross profit margins and lower overall operating expenses. Excluding other expenses consisting of both cash and non-cash interest expense, operating income amounted to $128,140 for the nine months ended September 30, 2015 as compared to a loss of $1,119,086 for the nine months ended September 30, 2014, for an improvement of $1,247,226 or 111.5%.

Results of Operations for the Three-Month Periods Ended September 30, 2015 and 2014

The following tables summarize and compare selected items from the statement of operations for the three-month periods ended September 30, 2015 and 2014.

	Three Months Ended September 30,		(Decrease) / Increase	
	2015	2014	$	%
Net Revenues	$ 5,776,862	$ 5,314,554	$ 462,308	8.7%
Cost of Revenues	4,887,299	4,148,130	739,169	17.8%
Gross Profit	$ 889,563	$ 1,166,424	$ (276,861)	(23.7) %
Gross Profit Percentage of Revenue	15.4%	22.0		

Revenues

Revenues for the three months ended September 30, 2015 amounted to $5,776,862 as compared to revenues of $5,314,554 for the three months ended September 30, 2014, representing an increase of $462,308 or 8.7%. The overall increase was driven by increases in vehicle services of 7.3% and ATSE services of 19.4%. Vehicle services included several large purchase orders for Panasonic Toughbooks and Arbitrator 360 in-car video capture systems, as existing clients continue to upgrade police department digital evidence management capabilities. ATSE services growth was primarily driven by recurring revenue contributed from our Saltillo, Mexico program as well as slight increases from our U.S. clients who have transitioned to flat fee contract structures. For the three months ended September 30, 2015, ATSE paid citations amounted to 49,075 from 53 cameras as compared to 32,275 from 43 cameras for the three months ended September 30, 2014, representing an increase of 16,800 or 52%.

Our ATSE program in Saltillo, Mexico continued to generate revenues with ten live operating cameras for the full quarter. As of September 30, 2015, the City had yet to begin substantial enforcement operations for the collection of past due fines which totaled approximately $15.6 million. A total of 12,451 collected citations were processed from the ten cameras for the three months ended September 30, 2015. We anticipate improved collection rates in the future as enforcement operations begin in October 2015. The Company is working closely with Canviso and the City to assist in these efforts in a manner that preserves the integrity of the program and meets Mexican legal requirements.

Cost of Revenues

Cost of revenues for the three months ended September 30, 2015 amounted to $4,887,299 as compared to $4,148,130 for the three months ended September 30, 2014, an increase of $739,169 or 17.8%. The increase was primarily driven by higher direct labor for upfitting services as well as a higher percentage of customer orders for product shipments without associated installation services. Ongoing operational efficiencies with ATSE services, with lower labor and materials required to maintain cameras, contributed to a slight offset to the overall 17.8% increase.

Gross Profit

Gross profit for the three months ended September 30, 2015 amounted to $889,563 as compared to $1,166,424 for the three months ended September 30, 2014, a decrease of $276,861 or 23.7%. The main driver of the decrease was a small number of large product-only (no installation) customer orders for vehicle services with lower than anticipated gross margins. The Company decided to fulfil these orders in an ongoing effort to obtain new clients and expand operations beyond our mid-Atlantic base. Overall gross margin for the three months ended September 30, 2015 was 15.4% as compared to 22.0% for the three months ended September 30, 2014. ATSE gross margin for the three months ended September 30, 2015 was 64.5% as compared to 56.1% for the three months ended September 30, 2014. Vehicle services gross margin for the three months ended September 30, 2015 was 8.5% as compared to 17.6% for the three months ended September 30, 2014. For the full year 2015, the Company expects ATSE gross margin percentage to approximate 65% and Vehicle Services gross margin percentage to approximate 12%. As contributed revenues from ATSE services continue to rise as a percentage of overall revenues, we anticipate continued growth in the Company’s overall gross margin percentage.

Expenses

	Three Months Ended September 30,		Increase / (Decrease)	
	2015	2014	$	%
OPERATING EXPENSES				
Salaries and related expenses	$ 485,740	$ 485,530	$ 210	0.0%
Selling, general and administrative expenses	397,473	473,392	(75,919)	(16.0) %
Total operating expenses	$ 883,213	$ 958,922	$ (75,709)	(7.9) %

Salaries and Related Expenses

Salaries and related expenses for the three months ended September 30, 2015 amounted to $485,740 as compared to $485,530 for the three months ended September 30, 2014, an increase of $210 or 0.0%. No specific categories of labor changed significantly as the Company has established a support structure that is able to manage ongoing operations without significant additions as we add new business in the future. Management believes that certain infrastructure costs associated with sales and marketing efforts are a key to renewed growth. As such, the Company intends to continue focusing on these efforts in the future through a coordinated international strategy in regaining sustained profitability.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 2015 amounted to $397,473 as compared to $473,392 for the three months ended September 30, 2014, a decrease of $75,919 or 16.0%. The decrease was primarily driven by lower depreciation expense as certain obsolete assets had been disposed of in the second quarter of 2014 and the Company has not incurred significant additional capital expenditures since 2014.

Other Expenses, net

Total other expenses for the three months ended September 30, 2015 amounted to $248,997 as compared to $46,465 for the three months ended September 30, 2014, an increase of $202,532 or 435.9%. The increased expenses were due primarily to a net increase in financing cost of $147,596 that includes non-cash interest expense related to the original issue discount of $10,932 and debt discount amortization of $109,324 and the increase in warrant liability of $54,936 related to the issuance of the Investor Note and Warrant. The remainder of the increase was due to an increase in cash interest expense associated with balances on the Company's revolving line of credit.

Net Loss

Net loss for the three months ended September 30, 2015 amounted to $242,647 compared to net income of $161,037 for the three months ended September 30, 2014. The change in earnings, from net income for the three months ended September 30, 2014 to a net loss for the same period of 2015, was primarily due to lower overall gross profit margin and increased non-cash expenses associated with the issuance of the Investor Note. Excluding other expenses consisting of both cash and non-cash interest expense, operating income amounted to $6,350 for the three months ended September 30, 2015 as compared to $207,502 for the three months ended September 30, 2014, for a decrease of $201,152 or 96.9%.

Financial Condition, Liquidity and Capital Resources

At September 30, 2015, we had total current assets of $6.45 million and total current liabilities of $6.09 million resulting in a working capital surplus of $0.36 million. Inventory totaled $1.2 million at September 30, 2015 and primarily consisted of raw materials related to our existing pipeline of committed customer sales orders. In comparison, at December 31, 2014, we had total current assets of approximately $3.85 million and total current liabilities of approximately $3.90 million, resulting in a working capital deficit of approximately $50,000.

The Company's accumulated deficit increased to approximately $10.97 million at September 30, 2015 from $10.57 million at December 31, 2014, as a result of the net loss recorded for the nine months ended September 30, 2015. Cash flows used in operations for the nine months ended September 30, 2015 were approximately $1.97 million, compared to cash flows used in operations for the nine months ended September 30, 2014 of approximately $0.5 million.

The Company relies on cash reserves, cash flows from operations and the Credit Facility (as defined below) to fund its operations. At September 30, 2015, the Company had approximately $0.8 million in unrestricted cash available, compared to approximately $1.1 million at December 31, 2014. In addition, the Company has established a credit facility (the "Credit Facility") with Rosenthal & Rosenthal ("Rosenthal") consisting of $2.5 million in revolving loans (the "Revolving Facility") and a $0.5 million non-revolving term loan (the "Term Loan"). The amount of funds available under the Revolving Facility from time to time is subject to certain limits based on, among other things, the Company's receivables and inventory. At September 30, 2015, the Company had $2.6 million in outstanding indebtedness under the Revolving Facility and $0.23 million in outstanding indebtedness under the Term Loan. Rosenthal consented to the slight overdraw under the Revolving Facility. As of September 30, 2015, we were out of compliance with one of the financial covenants contained in the Credit Facility as a result of the net loss recorded for the nine months ended September 30, 2015. We have reported this non-compliance to Rosenthal & Rosenthal and received a wavier on the covenant.

As discussed in Note 5 to the condensed consolidated financial statements presented elsewhere in this Quarterly Report, the Company is indebted to C.B. Brechin and Scott Rutherford under unsecured promissory notes in the aggregate balance of $500,000 as of June 30, 2015. On November 9, 2015, the maturity dates of these unsecured promissory notes were extended to the earlier of (i) November 9, 2016 or (ii) 10 business days from the date on which Brekford closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

The Company intends to continue its efforts to expand sales of ATSE services, and such expansion may significantly increase the Company's working capital needs. On March 17, 2015, the Company entered into a note and warrant purchase agreement providing for immediate funding of $650,000 through the issuance of the Investor Note (see Note 6 to the condensed consolidated financial statements presented elsewhere in this Quarterly Report for additional detail). The primary use of proceeds was to acquire necessary equipment for the initial phase of a 210-camera project in Mexico providing turnkey ATSE services to the City of Saltillo, which began operations in the second quarter of 2015. We have achieved positive cash flow generation from this project as of September 30, 2015. Management believes that the Company's current level of cash combined with cash that it expects to generate in its operations during the next 12 months and funds available from revolving the Credit Facility will be sufficient to sustain the Company's business initiatives through at least September 30, 2016. Management has taken certain measures to conserve the Company's capital resources and maintain liquidity that it believes will permit the Company to meet its future capital requirements, but there can be no assurance that these measures will be successful or adequate.

In the event that the Company's cash reserves, cash flow from operations and funds available under the Credit Facility are not sufficient to fund the Company's future operations, it may need to obtain additional capital. No assurance can be given that the Company will be able to obtain additional capital in the future or that such capital will be available to the Company on acceptable terms. The Company's ability to obtain additional capital will be subject to a number of factors, including market conditions, the Company's operating performance and investor sentiment, which may make it difficult for the Company to consummate a transaction at the time, in the amount and/or upon the terms and conditions that the Company desires. If the Company is unable to raise additional capital at the times, in the amounts, or upon the terms and conditions that it desires, then it might have to delay, scale back or abandon its expansion efforts. Even with such changes, the Company's operations could consume available capital resources and liquidity.

Cash Flows used in Operating Activities

Net cash used in operating activities was $1.97 million for the nine months ended September 30, 2015 compared to net cash used by operating activities of $0.5 million for the nine months ended September 30, 2014. Cash was used primarily to fund our operations and working capital needs, net of non-cash expenditures such as depreciation and amortization, share based compensation for services and financing related costs. For the nine months ended September 30, 2015, the net loss of $0.4 million, the increase in accounts receivable of $2.1 million and inventory of $0.5 million offset by the increase of accounts payable of $0.9 million were the primary drivers of the cash used in operating activities. For the nine months ended September 30, 2014, the net loss of $1.2 million, adjusted for a non-cash disposal of equipment of $0.3 million, offset by a decrease in inventory of $0.4 million and an increase in accounts payable of $0.8 million were the primary drivers of the cash provided by operating activities.

Cash Flows Used in Investing Activities

There were no capital expenditures during the nine months ended September 30, 2015 compared to $30,293 during the nine months ended September 30, 2014.

Cash Flows Used in Financing Activities

Net cash provided by financing activities was $1.66 million for the nine months ended September 30, 2015 and net cash used in financing activities was $0.98 million for the nine months ended September 30, 2014. In addition, the Company received $0.65 million of net proceeds from the issuance of the Investor Note in March 2015. Furthermore, the Company made aggregate principal payments of $0.3 million under capital leases and other note obligations. In the corresponding period of 2014, aggregate principal payments of $0.7 million under capital leases and other note obligations were offset by proceeds from a note payable of $0.5 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies and Estimates

Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often requiring the use of estimates about the effects of matters that are inherently uncertain. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 discusses those critical accounting policies and estimates that management uses to prepare our consolidated financial statements, which include those relating to accounts receivables allowances, revenue recognition and income taxes. We have reviewed those polices and believe that they remain our most critical accounting policies for the nine months ended September 30, 2015, and that no material changes therein have occurred.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer who also serves as the principal accounting officer ("CEO"), to allow for timely decisions regarding required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated can provide only reasonable, but not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain judgments and assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of September 30, 2015 was carried out under the supervision and with the participation of the Company's management, including the CEO. Based on that evaluation, the Company's management, including the CEO, has concluded that the Company's disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting discussed below. A material weakness is a control deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 5) or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As discussed in Brekford Corp.'s Annual Report on Form 10-K for the year ended December 31, 2014, management identified, through its annual evaluation as of December 31, 2014, a material weakness in the Company's internal control over financial reporting, in that the Company does not employ a sufficient number of qualified accounting personnel to ensure proper and timely evaluation of complex accounting, tax, and disclosure issues that may arise during the course of the Company's business. Management has concluded that this material weakness likewise existed as of September 30, 2015. The Company is addressing this material weakness by reviewing the Company's accounting and finance processes to identify any improvements thereto that might enhance the Company's internal control over financial reporting and determine the feasibility of implementing such improvements and by seeking qualified employees and/or outside consultants who possess the knowledge needed to eliminate this weakness. The Company's ability to remediate this weakness may, however, be delayed or limited by resource constraints, a lack of qualified persons in the Company's market area and/or competition from other employers. As of September 30, 2015, the Company continues to engage outside financial consultant to provide assistance with the remediation of this weakness.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2015, other than the engagement of the financial consultant described above, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was not a party to pending legal proceedings during the period ended September 30, 2015 that are material to the Company or its assets.

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

Recent Sales of Unregistered Securities

None

Issuer Repurchases of Equity Securities

Neither Brekford Corp. nor any of its affiliated purchasers (as defined by Rule 10b-18 under the Exchange Act) purchased any shares of its common stock during the quarter ended September 30, 2015.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits that are filed or furnished with this report are listed in the Exhibit Index which immediately follows the signatures hereto, and that Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to 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.

Brekford Corp.

Date: November 13, 2015

By: /s/ C.B. Brechin
Chandra (C.B.) Brechin
Chief Executive Officer, Chief Financial Officer, Treasurer and Director
(Principal Executive Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Principal Executive Officer and Principal Accounting Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase (filed herewith).
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith).

Certifications of the Principal Executive Officer and Principal Accounting Officer
Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Chandra (C.B.) Brechin, as Chief Executive Officer and Chief Financial Officer of Brekford Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brekford Corp.;

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. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared; and

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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; and

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2015 /s/ Chandra (C.B.) Brechin
Chandra (C.B.) Brechin
Chief Executive Officer, Chief Financial Officer, Treasurer and Director
(Principal Executive Officer & Principal Accounting Officer)

Exhibit 32.1

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, the undersigned hereby certifies that (i) the Quarterly Report of Brekford Corp. on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of Brekford Corp.

Date: November 13, 2015 /s/ Chandra (C.B.) Brechin
Chandra (C.B.) Brechin
Chief Executive Officer, Chief Financial Officer, Treasurer and Director
(Principal Executive Officer & Principal Accounting Officer)