



# INSTITUTIONAL RESEARCH

## Technology

### INITIATION REPORT

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Toll Free: 866-928-0928 s www.DawsonJames.com s 925 Federal Highway, 6<sup>th</sup> Floor s Boca Raton, FL 33432

## Brekford Corp. (NasdaqOTCBB/BFDI)

July 22, 2011

**Robert M. Wasserman**

Director of Research

561-208-2905

rwasserman@dawsonjames.com

**BUY**                      **Green Light and Full Speed Ahead**

*Brekford provides traffic enforcement camera and vehicle upfitting services*

### Investment Highlights

1) Brekford has moved quickly and successfully into the burgeoning automated traffic enforcement system market, signing contracts with five municipalities in the Company's home state of Maryland in less than twelve months. We are forecasting this new group to grow to \$8.6 million in revenues in 2011E and over \$15 million in revenues for 2012E from almost nil in 2010, while at the same time operating at a profit. What's more, with only 14 states legislating the use of speed cameras at present and an estimated 2% penetration, the Company plans to expand its geographic reach in this new segment along the Eastern seaboard as more states adopt the use of these new systems.

2) The Company has also made strides in turning around its core vehicle upfitting and mobile computer business, such as with a new contract with various utility agencies signed earlier this spring. Despite budget troubles at many local government agencies, Brekford has been able to maintain its profitability in this segment to date, and with greater sales volumes coming in through new traffic systems contracts to spread overhead costs, we anticipate Brekford growing its earnings for the remainder of this year and next.

3) A return to revenue growth in the first quarter of this year as well as positive news flow from new contract signings has heightened Brekford's awareness with growth-oriented investors, increasing trading volumes and thus improving liquidity for potential investors. Combined with a strong balance sheet, anticipated growth in revenues and earnings, and the potential for more new contract signings, we believe news flow in the coming quarters at the Company will continue to be positive and investor awareness and desirability of this stock will grow even greater as 2011 progresses.

**Current Price**                      **\$0.34**

**Price Target**                      **\$1.00**

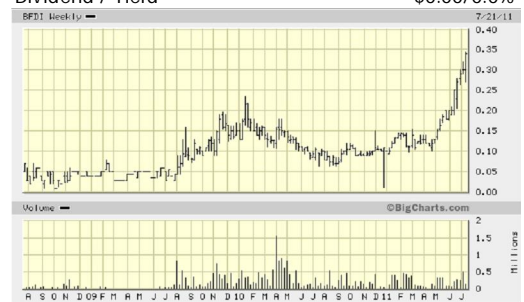
Estimates	F2009A	F2010A	F2011E
Revenue (\$Mill)	\$14,557	\$11,609	\$21,090
1Q March	3,379	3,361	4,105 A
2Q June	3,638	3,519	4,910 E
3Q September	3,890	2,655	5,725 E
4Q December	3,650	2,074	6,350 E

EPS	\$0.01	\$0.00	\$0.03
1Q March		0.00	0.00 A
2Q June		0.00	0.01 E
3Q September		0.00	0.01 E
4Q December		(0.00)	0.01 E

P/E (x)                      N/A                      N/A                      10.1

EBITDA/Share	\$0.02	\$0.01	\$0.04
EV/EBITDA (x)	18.6	47.1	7.1

Stock Data	
52-Week Range	\$0.07-\$0.35
Shares Outstanding (mill)	40.5
Market Capitalization (mill)	\$13.8
Enterprise Value (mill)	\$12.2
Debt to Capital (3/11)	23.1%
Book Value/Share (3/11)	\$0.06
Price/Book	5.9 X
Average Trading Volume (10-day)	72,700
Insider Ownership	62.7%
Institutional Ownership	0.0%
Short interest	N/A
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:  
Initiated - July 22, 2011 - BUY - Target \$1.00

**Please find Important Disclosures beginning on Page 13.**

## Conclusion

Brekford has added to a profitable law enforcement service business with the entry into the high-growth, high-margin automated traffic enforcement systems market. The Company has already signed a number of new contracts in the traffic group, and combined with a strong balance sheet (no long-term debt) and improving outlook for its legacy business, we are forecasting very positive growth in revenues and earnings for this year and next for Brekford. Perhaps due to the Company's small size or short history of public stock trading, Brekford shares currently trade at a discount to comparable companies in this area, even with a recent rise in share price for Brekford, which has also added greater trading volumes and liquidity to this stock. Therefore, we are initiating coverage on BFDI shares with a BUY rating and 12-18 month price target of \$1.00 per share, or 14X next year's estimated calendar earnings per share of \$0.07 and 1.9X estimated revenues for calendar 2011.

## History/Capitalization

Brekford was incorporated in 1998 and began trading publicly in 2004 under the name American Financial Holdings, Inc. (AFHI). In January 2006, the Company's shareholders approved the merger of AFHI with Pelican Mobile Computers, a provider of mobile data and technology solutions to law enforcement agencies, and in July 2010 shareholders approved a change in the name of the Company to the current Brekford Corp. in order to more fully identify with the greater breadth of services and products offered by the Company, including vehicle upfitting services and automated traffic enforcement systems. The Company has financed its operations through positive operating cash flow, private equity placements, and notes payable since inception.

## Company Business

Brekford Corp. is a homeland security technology service provider of fully integrated vehicle installation and rugged technology and video solutions geared towards mission critical operations. Brekford's key customers include branches of the U.S. military, various federal entities, municipalities and local governments, and numerous security and public safety agencies throughout the United States. The Company's key service areas include vehicle upfitting solutions, mobile technology and video solutions, electronic ticketing systems, and automated traffic safety technology solutions, including red light and speed photo enforcement systems. The automated traffic enforcement division was founded in mid-2010 and received its first contracts and revenues in late 2010. The Company's revenues by area for 2010 actual and for 2011 estimates are as follows:

**Table 1. Revenues by area (\$000s)**

Type	2010A	2011E
Mobile Tech & Video Solutions	\$6,610	\$7,700
360° Vehicle Uplifting Solutions	4,040	3,430
E-Ticketing systems	860	1,340
Automated Traffic Enforcement	<u>100</u>	<u>8,620</u>
<b>Total</b>	\$11,610	\$21,090

The Company's headquarters are in Hanover, Maryland outside Baltimore with an additional traffic safety service center also in Hanover, Maryland. The Company's business areas are described in more detail below:

## Mobile Technology and Video Solutions

Brekford develops and markets integrated, inter-operatable, feature-rich mobile systems for first responders including police, fire, and Emergency Medical Services teams to obtain and exchange information on a real-time basis. Brekford is a premiere Panasonic (NYSE/PC/Not Rated) toughbook partner, and the Company offers products to augment the rugged laptop computers in this series through the design and manufacture of vehicle mounting systems and docking stations for in-vehicle communications equipment. In addition to rugged laptops, Brekford provides custom-designed tablets and hand-held computers, GPS terminals, two-way radios, and full console systems as part of ergonomically sound mounting products with full port replication.

Brekford also supplies low-profile docking stations which are precision machined with aircraft aluminum for light weight and safe ergonomics. The unique cut away delta-V design allows a footprint smaller than the laptop itself with connections made underneath, in order to preserve space on the vehicle mount while providing full



port replication. Brekford's captured cylinder key locks prevent both theft and key-duplication and come with common keys to facilitate fleet management. The photos to the left show a typical Brekford vehicle mobile technology installation and docking station.

Brekford's Arbitrator 360° is a Panasonic Toughbook-based rugged mobile digital video system for law enforcement video capture. The Arbitrator 360° can be used with or without a Toughbook computer, however. The fully-integrated Arbitrator is specifically engineered to excel in demanding law enforcement environments, offering 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. The photos to the right depicts Brekford's Arbitrator camera alone and entire system, including Panasonic electronic hardware.



Automatic License Plate Readers (ALPR) are devices using image-processing technology to identify automotive vehicle license plates. ALPRs can record license plates at approximately one per second at speeds of up to 100 miles per hour and often utilize infrared cameras for clarity and to facilitate recording in day or night. The data collected can either be processed in real-time, at the site, or can be transmitted to remote processing centers for determination at a later time. Brekford's ALPR systems utilize state-of-the-art information technology.

There are many applications for Automatic License Plate Readers, including traffic and parking management, tollbooth operations and area-access control. One of the fastest growing applications is the deployment of ALPR systems by law enforcement agencies across the country to identify persons or vehicles whose license plates are connected to a crime or infraction.

Although Brekford's revenues from mobile technology and video solution installation declined in 2010 due to reduced spending by state and local governments, a recently awarded twelve-month contract valued up to \$4 million (March 2011) signed with quasi-government utility companies to supply rugged Panasonic Toughbook computers, communications and vehicle mounting equipment is expected to allow this Brekford division to resume revenue growth in 2011 and 2012.

## 360° Vehicle Uplifting Solutions

Brekford provides vehicle upfitting services for agencies in the law enforcement, public safety, police, and emergency medical services areas. The Company prides itself as being a complete one-stop-shop upfitting provider, and its 360° smart police vehicles for sale or lease include the leading fleet brands, such as:

- Ford Crown Victoria
- Chevy Impala
- Chevy Tahoe
- Dodge Charger; and
- Customized design and unique vehicles.

Brekford's installation and integration services incorporate the latest technological advances, with strict quality control, to ensure safe and efficient vehicles. Among the services provided by Brekford to its vehicle upfitting customers are:

- Emergency Lighting Sales and Installation
- Push Bar, Skid Plate and Brush Guard Sales and Installation
- Rear Seat Partition Sales and Installation
- Prisoner Rear Seat System Sales and Installation
- K-9 Transport System Sales and Installation
- Window and Vehicle Armor Sales and Installation
- Gun Rack Sales and Installation
- Trunk Tray and Trunk Storage Box Sales and Installation
- Siren and Intercom System Sales and Installation
- Speed Radar System Sales, Installation, Repair and Certification (Stalker and MPH)
- In-Vehicle Video System Sales, Integration and Installation
- Vehicle Ground Radar Surveillance and Detection System Sales, Integration, and Installation
- Professional Graphics Sales and Installation

Brekford's 23,000 square foot Maryland integration center (see photo at right) can order and subsequently upfit vehicles to agency specifications and drop-ship the finished product anywhere in the US. The Company has existing contract approvals with a number of states and counties, including Maryland (and six counties within the state), Virginia, and Pennsylvania, as well as six federal agencies (including several overseas). Brekford has also developed a full vehicle municipal leasing program, allowing cash-strapped municipal agencies to preserve capital while still having access to the most recent technological advances. In 2010, 94% of total sales were to governmental agencies and 6% to commercial customers, and two customers each had greater than 10% of total net sales.



## Electronic Ticketing Systems – SlickTicket

Brekford's SlickTicket is a portable, durable, easy to connect Electronic Ticketing System with high-quality, built-in integrated components including scanners and thermal printers. The SlickTicket unit (shown in the photo to the right) is constructed of durable, vacuum formed plastic for maximum protection, and is assembled and tested in Brekford's warehouse to ensure high quality control. The lightweight unit is easy to transport from vehicle to vehicle, requires no installation, and employs a proprietary wiring system which uses only one USB port and one cigarette adapter for easy connections to a Panasonic Toughbook laptop computer. Operation of the SlickTicket system requires only three steps for a law enforcement officer:



- 1) Connect – Easy to connect to existing laptops;
- 2) Scan – Rapidly reading of driver's license bar codes; and
- 3) Print – Built-in thermal printer quickly prints out tickets, citations and warnings.

The SlickTicket allows law enforcement agencies to streamline the electronic ticketing process while using up only a small amount of space in the officer's vehicle. Declining budgets at many local governments have forced law enforcement agencies to decrease costs and increase officer productivity, and Brekford's SlickTicket offers a streamlined solution that also improves officer safety. Brekford's revenues from Electronic ticketing systems have grown rapidly, increasing nearly 34% in 2010 to \$860,000, and we are forecasting revenues to grow an additional 30% - 40% more this fiscal year to over \$1.2 million.

## Automated Traffic Enforcement Systems – Red Light and Speed Cameras

Brekford's newest business segment is automated traffic enforcement systems. As populations grow and public safety budgets for many local government agencies are reduced, public safety has become a major concern for many communities. An increasingly more popular method to help make local streets safer while reducing law enforcement workload is through photo red light or speed enforcement programs. The objective of these programs is to help reduce the incidence of aggressive driving through voluntary compliance of safety laws. Revenue generated from fines generated from these new programs routinely return directly back into supporting local communities' other public safety initiatives. Photo enforcement solutions can reduce collisions, injuries and even deaths by providing a useful tool for municipal and county law enforcement agencies – without unduly taxing safe drivers who obey traffic rules and laws. At this time, nearly 400 communities across the US operate red light (in 25 states) or speed (14 states) camera enforcement programs, with more communities and states passing legislation each year. (Source: Insurance Institute for Highway Safety report October 2010)

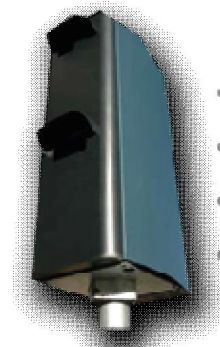
Brekford's Automated Traffic Enforcement Group (ATEG) offers intersection safety (red light), photo speed, work zone and school bus enforcement programs with a complete suite of program support solutions. Brekford's Automated Traffic Enforcement systems are notable because they:

- Come with available 'turn-key' packages;
- Are provided with COPS2000® violations processing system;
- Include non-intrusive laser or RADAR based detection systems which require no road cutting;
- Contain proven red light and speed camera solutions; and
- Are the most customizable solutions in the industry.

## Red Light Cameras

Intersection safety or red light enforcement systems have been implemented in communities for a number of years, however, industry surveys (Insurance Institute for Highway Safety) estimate that of the potential market for red light cameras in the US of 20,000-30,000 only 18% have been installed to date. Brekford's red light camera solutions offer the following advantages for municipalities seeking to install these systems:

- Easy to use and to maintain
- RADAR or Laser detection technology
- Requires little training to your police or transportation personnel
- High resolution (up to 15 megabyte Camera)
- Immediate operational viewing via a smartphone or Tablet PC
- IR or visible light flash
- Optional digital video camera (captures 10 sec. video for each infraction)
- Remote camera operations and violation data downloading



- Radar-based "Ruggedized" System
- Operation in All Weather Extremes
- Vandal Proof Outer Housing
- True Bullet Resistant Armor

### Special Features include:

- Non-intrusive option into the intersection's traffic signal
- Automatic License Plate Reading (LPR)
- Configurable camera 'on' and 'off' times



- New or 'existing' pole installation
- Sleek, singular and self-contained unit
- Interchangeable camera design
- Easiest installation in the industry

The photos to the right above portray several of Brekford's red light camera product offerings and their advantages.

## Mobile and Portable Speed Cameras

A more recent adoption by local communities is the use of mobile and portable camera systems to reduce vehicle speeds and accidents. An automated speed enforcement (ASE) system is an enforcement technique employing one or more vehicle sensors to produce recorded images of motor vehicles which are traveling at speeds above a defined threshold or posted speed limit. Images captured by the ASE system can then be processed and reviewed in an office environment at any time with violation notices mailed to the registered owner of the identified vehicle. Brekford's speed camera offerings, an example of which is shown in the photo below at right, offer the following product advantages:

- Ruggedized, self-contained, deployable portable speed cameras
- The result of thirty years of development by leading manufacturers of traffic enforcement systems
- Heavy duty steel construction with limited weight and overall dimensions

- Easily removable and re-deployable
- Designed for unattended speed enforcement
- Designed for both day or night operations using IR flash
- Resists spray paints and other forms of vandalism
- Double-mapping safety locking device to secure unit
- Unique 'twilight mode' allows for automatic flash activation during times of poor lighting
- Requires no external power or special permits
- Customizable outer housings can be made to fit any unique requirement



Portable Camera Systems

In contrast to red light camera enforcement systems, speed cameras have a much more recent history of adoption. Currently, only fourteen states (including Arizona, Colorado, Illinois, Iowa, Louisiana, Maryland, Oregon, Tennessee, Utah, and Washington) and the District of Columbia have passed legislation allowing the use of speed camera enforcement systems by local communities within their states, although additional states are considering similar legislation. Thus, industry sources (Insurance Institute for Highway Safety) estimate that only 2% of the potential of 35,000-50,000 speed cameras have been deployed to date.

Brekford initiated its ATEG effort in April 2010 with the hiring of Maurice Nelson, an eleven-year veteran of the automated traffic enforcement industry including key contributions in the implementation of two of the largest and most successful speed enforcement camera programs in the United States: Montgomery County, Maryland and Washington, D.C. The Company signed its first contract in this business in October 2010 with the township of Landover Hills, Maryland (outside of Washington, D.C.) for school zone speed cameras. Subsequently, the Company has signed additional contracts for these systems, including:

- 1) Landover Hills, MD. (October 2010) – One year contract with five renewable years for school zone speed cameras;
- 2) Laurel, MD. (November 2010) – Contract for up to five years for school zone speed cameras. In January 2011, the City of Laurel increased the number of cameras deployed under this contract from one to five;
- 3) Morningside, MD. (May 2011) – Three year contract with three potential renewable years for school zone speed cameras;
- 4) Salisbury, MD. (June 2011) – Two year contract with three potential renewable years for school zone speed cameras; and
- 5) Fairmount Heights, MD. (July 2011) – Two year contract with three potential renewable years for school zone speed cameras.

Brekford has established a satellite office near its corporate headquarters in Hanover, Maryland to provide back office support to the current and potential future local communities to which it offers ASE services. These services offered include:

- Robust, secure, stable and customizable back-office systems;
- Hardened windows-based environment;
- Integration to any legacy system, virtually eliminating conversion time;

- Court modules for scheduling hearings or interfacing with courts;
- Payment processing and account reconciliation;
- Printing and mailing services for notices and other letters;
- Customer Service Call-Center;
- Remote desktop features allowing processing anywhere at any time; and
- Fully automated program support services.

Revenues from ATEG services in 2010, the first year of operation of this group, were very small, less than \$100,000, but have already grown to over \$1 million in the first quarter of this year and we estimate revenues will exceed \$8 million in 2011 and approach \$15 million in 2012. The Company plans to continue its growth at its ATEG group initially within the State of Maryland but later expand into additional states down the Eastern US corridor from Maryland to Florida. Should the Company continue to sign new contracts, particularly with communities further away from the Baltimore-Washington corridor, additional satellite offices might need to be established.

### Competition

Brekford competes with a number of primarily regionally-based providers in the upfitting and mobile data and video markets. In marketing its services to law enforcement agencies, the Company stresses its broad product offering and “one-stop shop” capabilities to compete in this area, along with diverse financing options and a preferred, pre-negotiated federal General Services Administration (GSA) Schedule 84 contract. In the Automated Traffic Enforcement market, Brekford competes with a number of larger, nationally-known providers of these systems, including Australian-based Redflex Holdings (Australian Stock Exchange/RDF/\$1.85/Not Rated) and privately-held American Traffic Solutions (ATS) of Scottsdale, Arizona. Redflex and ATS combined hold nearly 80% of the market in the US for red light and speed cameras, with another five smaller companies holding the remaining 20%. However, many of these companies historically have focused on red light cameras, with the more recent, less penetrated speed camera market more wide open in terms of gaining market share. Thus, Brekford has been able to grow its ATEG business rapidly over the past twelve months, especially in its home state of Maryland.

### Recent Results

Brekford reported excellent financial results for their fiscal first quarter ending March 31st, 2011, in mid-May. In the quarter, the Company recorded \$4.1 million in revenues and net income of \$113,000 or \$0.00 per share. This compares with sales of \$3.4 million in the prior year period and net income of \$26,000 or also \$0.00 per share. Revenue growth in this year’s quarter was led by \$1.1 million in revenues in the new ATEG segment, partially offset by a decline of approximately 10% in revenues from the legacy 360° Solutions business segment. Despite the lower revenues in the 360° division this year, however, Brekford was able to keep this segment profitable during the quarter, perhaps due to the Company’s ability to shift certain fixed costs to its new ATEG segment, which also showed profitability during Q1/2011, its first full quarter of revenue generation. Cash flow from operations during the quarter was approximately \$840,000. The chart below shows Q2/2011 results for Brekford compared with those of Q1/2011:

<b>Quarter ended</b>	<b>March 31, 2010</b>	<b>March 31, 2011</b>	<b>% Change</b>
<b>Revenues</b>	<b>\$3,360,951</b>	<b>\$4,104,524</b>	<b>22.1%</b>
<b>Operating Income</b>	<b>\$78,350</b>	<b>\$142,333</b>	<b>81.7%</b>
<b>Net Income</b>	<b>\$26,465</b>	<b>\$112,952</b>	<b>326.8%</b>
<b>Earnings per share</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>0.0%</b>
<b>Shares outstanding-basic</b>	<b>39,706</b>	<b>40,487</b>	<b>2.0%</b>



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## Balance Sheet and Operating Cash Flow

Brekford held a little less than \$2.3 million in cash and equivalents on its balance sheet as of the most recent quarter end (March 31<sup>st</sup>), offset by \$700,000 million in convertible notes payable to three shareholders (two of whom are officers of the Company) which bear interest at 12% per year. Also included in Brekford's cash position is \$520,000 in restricted cash in the form of a certificate of deposit used to secure a letter of credit related to the purchase of equipment. While cash on hand increased from \$1.5 million at the start of the year to \$2.3 million at the end of the quarter due in part to positive operating cash flow, Brekford also saw increases in other components of its balance sheet during Q1/2011 related to its new traffic enforcement business, including increases in receivables, deferred revenue, and current liabilities due to municipalities. However, since the Company has been profitable in the recent past and is forecast to remain profitable in the future despite revenue growth in the ATEG segment, we estimate that existing cash balances and future positive operating cash flow will be adequate to finance the Company's working capital needs in its new, high-growth ATEG division.

## Outlook/Growth Drivers

For the upcoming quarterly earnings financial report for Brekford, Q2/2011 (ending June) due out in mid-August, we are forecasting that the Company will accrue \$4.9 million in revenues, representing an increase of nearly 40% year-over-year, with net income of close to \$240,000 or \$0.01 per share, compared with breakeven in Q2/2010. On the revenue side, we are forecasting \$3.1 million in legacy business (360° Vehicle upfitting, E-ticketing systems and Mobile Tech and Video), with \$1.8 million from the newer traffic enforcement systems group. Fueling projected growth in Q2/2011 are more cameras installed under new contracts signed over the past nine months, but also to a lesser extent rebounding revenues on the legacy business helped by the impact of new contracts such as the \$4 million twelve-month agreement for rugged IT systems announced in March 2011.

For the fiscal year 2011 as a whole, we are forecasting that Brekford will reach \$21.1 million in revenues, an increase of 82% from 2010, led by \$8.6 million in ATEG revenues and \$12.5 million in legacy business. The legacy revenues would represent an 8.3% increase on a same business unit basis from 2010, a strong turnaround from declining revenues in this segment in 2010. We are also forecasting improving gross margins and improving overall operating margins for 2011, due primarily to fixed costs spread over higher sales volumes, and combined with higher revenues those factors will be sufficient to bring Brekford's net income to \$1.4 million or \$0.03 per share for 2011 versus breakeven in 2010. Our forecasts assume 6 red light cameras and 17 speed cameras in place by the end of the year.

For calendar and fiscal 2012, we are forecasting that the Company will continue the growth experienced in 2011, led by solid increases in legacy revenues (5.5%) and even stronger growth in traffic enforcement revenues, to \$15.6 million, or nearly twice the levels of 2011 in this area. Projected to fuel the growth in traffic segment revenues is installation of new cameras (15 red light and 30 speed cameras by the end of the year) as well as the maturation of existing cameras in place since the beginning of the year. Combined with improving gross margins fueled by economies of scale, we are forecasting that net income for Brekford will increase to close to \$2.9 million in 2012, or \$0.07 per share. We also anticipate that operating cash flow will be positive in both 2011 and 2012, thus enabling the Company to cover the capital requirements of the new growth initiatives through existing financial resources and future cash flow.

Brekford management provided revenue and earnings per share forecasts for the Company for annual years 2011 and 2012 (and 2013 and 2014 as well) at their recent 2010 annual meeting in May 2011, but not for quarterly results.

## Management

**C. B. Brechin** joined the Company in January 2006 as a director, and has held the position of Chief Executive Officer since July 2008 and Chief Financial Officer since April 2010. He co-founded a predecessor company, Pelican Mobile Computers, in 1996. Mr. Brechin holds a Bachelor's degree in Political Science and International Affairs from Kalamazoo College and a Master's degree in Information and Telecommunications Systems from Johns Hopkins University. **Scott Rutherford** has been a director of the Company since January 2006 and President since July 2008. Mr. Rutherford also co-founded predecessor firm Pelican Mobile Computers and has more than twenty-five years of experience in the management of technology, and was the recipient of the "Comdex Most Innovative" award on 1998. **Maurice Nelson** joined Brekford in April 2010 as Managing Director, and has eleven years of prior industry experience, including key roles in implementing the two largest photo speed enforcement traffic camera systems in the US, in Montgomery County, Maryland and Washington, D.C. **Travis Hudson** serves as Director of Business Development responsible for new business initiatives in Brekford's Federal/Military Law Enforcement Division. **Richard Retting** serves as a Brekford Partner in the automated traffic enforcement area, and has eighteen years experience as a Senior Transportation Engineer with the Insurance Institute for Highway Safety.

Outside directors include **Douglas Deleaver**, a director since 2007 and past president of NOBLE (National Organization of Black Law Enforcement Executives) as well as a veteran of 39 years in law enforcement and homeland security agencies; and **Jessie Lee, Jr.**, a director since 2008 and the Current Executive Director of NOBLE.

## Stock Valuation/Comparables

We have compiled a three-stock comparison group for Brekford, including several stocks in the corrections area such as The GEO Group (NYSE/GEO/Buy) and Corrections Corporation of America (NYSE/CXW/Not Rated); and one company in the rugged mobile computer market, Socket Mobile (Nasdaq/SCKT/Not Rated). We have not included Redflex Holdings in our comparison group, however, due to the fact that the Company has not reported profitability and does not trade on a US stock exchange.

Based on valuation metrics including price/earnings and price/sales for calendar 2011, Brekford's shares can be considered undervalued by as much as 50%-75%, most likely reflecting the Company's small size and only recent return to a growth mode with its new initiatives. Thus, we are recommending that investors purchase these shares with a 12-18 month price target of \$1.00 or 14X next year's estimated calendar earnings per share of \$0.07, (comparable to price/earnings metrics for 2011E for CXW and GEO) and 1.9X estimated revenues for 2011, comparable to price/sales metrics for 2011E for SCKT.

## Risk Factors

**We believe an investment in Brekford involves the following risks:**

- **Limited History of Profitability** – Although Brekford has reported profitable results for the first quarter of this year as well as the prior two fiscal years, and is also forecast to be profitable for the remainder of this year and next, prior to 2009 the Company operated at a loss. In addition, until the first quarter of this year Brekford had reported declining revenues, and the Company is undertaking a major new growth vehicle with its automated traffic enforcement group. Should growth in this new division occur more rapidly than anticipated or require more resources than planned, the Company could begin to show operating losses, requiring the need to raise additional equity capital or long-term debt.
- **Reliance on new business segment** — Revenues from Brekford's legacy business have been declining for several years due primarily to budgetary constraints experienced by many municipal governments, and the

Company is relying on revenues from its new ATEG segment to fuel growth. Should growth in this new division be slower than planned or experience growing pains, Brekford's current strategy could prove to be less positive than foreseen, requiring the Company to potentially reduce expenses or seek out new growth initiatives.

- **Risk of Share Dilution** – Brekford currently has several large convertible notes and various warrants and options outstanding, which if converted and exercised could potentially mean the issuance of an additional 5-10 million shares, representing potential share dilution of 12%-25% if all underlying warrants and options are exercised. These exercising, however, would bring in additional equity capital to the Company.
- **Competitive Markets** – The Company competes in the law enforcement vehicle upfitting market and especially the automated traffic enforcement market with a number of larger competitors with greater resources and broader geographic reach. Brekford, however, has been able to differentiate itself in these competitive markets to date through its technological expertise or higher levels of service, and we anticipate that these historical characteristics will continue into the future.
- **Common stock restrictions** – Brekford shares currently trade on the Nasdaq Over-the-counter bulletin board with certain restrictions and limited trading volume that are associated with this smaller, less-established stock exchange. However, recent growth and positive financial results have improved liquidity in these shares, making it easier for potential investors to build positions.

**Brekford Corp.**  
**Consolidated Statements of Operations**  
(In \$000s)

FYE December	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E
				Mar	June	Sept	Dec		Mar	June	Sept	Dec		
Net revenue	\$19,764	\$13,502	\$14,557	\$3,361	\$3,519	\$2,655	\$2,074	\$11,609	\$4,105	\$4,910	\$5,725	\$6,350	\$21,090	\$28,750
Cost of revenue	16,175	11,506	11,918	2,930	3,038	2,172	1,558	9,698	3,351	3,930	4,470	4,830	16,581	21,850
Gross Profit	3,589	1,995	2,639	431	481	483	516	1,911	753	980	1,255	1,520	4,508	6,900
Operating Expenses:														
Salaries and related expenses	3,763	1,281	1,057	168	265	226	301	960	263	320	370	410	1,363	1,870
Selling, general & administrative expenses	1,678	2,254	945	184	190	206	255	834	349	380	430	480	1,639	2,000
Total operating expenses	5,441	3,535	2,003	353	455	431	556	1,794	611	700	800	890	3,001	3,870
Income (loss) from operations	(1,852)	(1,540)	636	78	26	51	(39)	116	142	280	455	630	1,507	3,030
Other Income (expense)														
Interest expense	(54)	(12)	(35)	(58)	(22)	(22)	(26)	(127)	(28)	(30)	(30)	(35)	(123)	(130)
Interest income	77	39	20	6	4	6	3	19	0	0	0	0	0	20
Other expenses	(1,931)	32	37	0	0	0	0	0	(2)	(2)	(5)	(5)	(14)	(20)
Income (loss) before tax	(3,760)	(1,481)	658	26	9	35	(62)	8	113	248	420	590	1,371	2,880
Provision for income taxes	0	0	80	0	0	0	0	0	0	0	0	0	0	0
Net income (loss)	(3,760)	(1,481)	578	26	9	35	(62)	8	113	248	420	590	1,371	2,880
Basic income per share	(\$0.06)	(\$0.02)	\$0.01	\$0.00	\$0.00	\$0.00	(\$0.00)	\$0.00	\$0.00	\$0.01	\$0.01	\$0.01	\$0.03	\$0.07
Diluted income per share	(\$0.06)	(\$0.02)	\$0.01	\$0.00	\$0.00	\$0.00	(\$0.00)	\$0.00	\$0.00	\$0.01	\$0.01	\$0.01	\$0.03	\$0.07
Basic shares outstanding	60,334	63,567	53,589	39,706	40,064	40,081	39,921	39,921	40,487	40,600	41,000	41,400	40,872	41,500
Diluted shares outstanding	60,334	63,567	55,014	49,706	40,064	40,081	39,921	39,921	40,487	40,600	41,000	41,400	40,872	41,500
Key ratios:														
Revenue growth		-31.7%	7.8%					-20.3%	22.1%	39.5%	115.6%	206.2%	81.7%	36.3%
Gross margin	18.2%	14.8%	18.1%	12.8%	13.7%	18.2%	24.9%	16.5%	18.4%	20.0%	22.0%	24.0%	21.4%	24.0%
Salaries/Revenues	19.0%	16.7%	6.5%	5.5%	5.4%	8.5%	14.5%	8.3%	6.4%	6.5%	6.5%	6.5%	6.5%	6.5%
Depreciation, amort, non-cash comp	\$3,859	(\$156)	\$233	\$49	\$58	\$17	\$21	\$146	\$55	\$60	\$65	\$70	\$250	\$300
Operating margin	-9%	-11%	4%	2.3%	0.7%	1.9%	-1.9%	1.0%	3.5%	5.7%	7.9%	9.9%	7.1%	10.5%
Cash Flow/share	\$0.00	(\$0.03)	\$0.01	\$0.00	\$0.00	\$0.00	(\$0.00)	\$0.00	\$0.00	\$0.01	\$0.01	\$0.02	\$0.04	\$0.08
EBITDA/share	\$0.03	(\$0.03)	\$0.02	\$0.00	\$0.00	\$0.00	(\$0.00)	\$0.01	\$0.00	\$0.01	\$0.01	\$0.02	\$0.04	\$0.08

**Balance Sheets**

(\$000s)

Assets:	12/31/10	3/31/11
Cash and equivalents	\$1,534	\$2,293
Accounts receivable, net	1,753	2,416
Prepaid and Other	24	20
Inventories	199	155
Total current	3,511	4,884
Property & equipment, net	1,012	960
Other non-current	28	39
TOTAL ASSETS	\$4,551	\$5,884

**Liabilities:**

Accounts payable	\$802	\$1,499
Accrued expenses	48	23
Deferred revenue	56	310
Due to municipalities	0	369
Other	240	255
Total current	1,147	2,455
Notes payable-stockholders	700	700
Other	440	393
Total liabilities	2,287	3,549
Stockholders' equity	2,263	2,335
TOTAL LIAB & EQ	\$4,551	\$5,884

**Quarterly Earnings Comparisons**

	March	June	Sept	Dec	Total
<b>Revenues (in 000's)</b>					
2009	3,379	3,638	3,890	3,650	14,557
2010	3,361	3,519	2,655	2,074	11,609
2011E	4,105	4,910	5,725	6,350	21,090
<b>Earnings per Share</b>					
2009	0.00	0.00	0.00	0.00	\$0.01
2010	0.00	\$0.00	0.00	(0.00)	0.00
2011E	0.00	\$0.01	0.01	0.01	0.03

**Revenue breakdown**

	2009	2010	Q1/11A	Q2/11E	Q3/11E	Q4/11E	2011E	2012E
<b>Sales by Type (\$000s)</b>								
<b>E-Ticketing systems</b>	\$640	\$860	\$320	\$330	\$340	\$350	\$1,340	\$1,400
<b>Mobile Tech &amp; Video Solutions</b>	10,470	6,610	1,850	1,900	1,950	2,000	7,700	8,000
<b>360° Vehicle Uplifting Solutions</b>	3,450	4,040	835	850	865	880	3,430	3,750
<b>Automated traffic Enforcement</b>								
<b>Red Light cameras</b>								
# Cameras		0	2	3	5	6	6	15
Revenue/Camera		10	10	10	10	10	40	40
Total - Red Light		\$0	\$20	\$30	\$50	\$60	\$160	\$600
<b>Speed cameras</b>								
# Cameras		2	6	10	14	17	17	30
Revenue/Camera		50	180	180	180	180	720	500
Total - Speed		\$100	\$1,080	\$1,800	\$2,520	\$3,060	\$8,460	\$15,000
Total - Traffic enforcement	\$0	\$100	\$1,100	\$1,830	\$2,570	\$3,120	\$8,620	\$15,600
<b>Total</b>	\$14,560	\$11,610	\$4,105	\$4,910	\$5,725	\$6,350	\$21,090	\$28,750

Source: Dawson James Securities, Inc. estimates; Company documents

## Important Disclosures:

### Price Chart:



### Price target and ratings changes over the past 3 years:

Initiated – July 22, 2011 – Price Target \$1.00

**Analyst Certification:** The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	25	84%	8	32%
Neutral	4	13%	3	75%
Sell	1	3%	0	0%
Total	30	100%	11	37%

**Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISK FACTORS” sections of this report.**

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