

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2018

Commission File No. 333-150332

DRONE AVIATION HOLDING CORP.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

46-5538504

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

**11651 Central Parkway #118
Jacksonville FL**

(Address of principal executive office)

32224

(Zip Code)

(904) 834-4400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Note: The registrant is a voluntary filer, but has filed all reports it would have been required to file by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months if it was subject to the filing requirements thereof.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act and Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2,821,247 based on the average bid price and asked price per share of the common stock as quoted on the OTCQB on the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2018).

As of March 22, 2019, there were 27,656,121 shares of registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Annual Report”) contains “forward-looking statements” that represent our beliefs, projections and predictions about future events. All statements other than statements of historical fact are “forward-looking statements,” including any projections of earnings, revenue or other financial items, any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new projects or other developments, any statements regarding future economic conditions or performance, any statements of management’s beliefs, goals, strategies, intentions and objectives, and any statements of assumptions underlying any of the foregoing. Words such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These statements are necessarily subjective and involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, including with respect to correct measurement and identification of factors affecting our business or the extent of their likely impact, the accuracy and completeness of the publicly available information with respect to the factors upon which our business strategy is based, or the success of our business. Furthermore, industry forecasts are likely to be inaccurate, especially over long periods of time. Factors that may cause actual results, our performance or achievements, or industry results to differ materially from those contemplated by such forward-looking statements include, without limitation, those discussed in “Item 1A. Risk Factors” of this Annual Report.

Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management’s belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, those factors discussed in “Item 1A. Risk Factors” of this Annual Report and elsewhere in this Annual Report.

PART I

Item 1. Business

Organization

Drone Aviation Holding Corp. has two wholly-owned subsidiaries: Lighter Than Air Systems Corp. (“LTAS”) and Drone AFS Corp. (“AFS”). Drone Aviation Holding Corp. was incorporated in Nevada on April 17, 2014, as a wholly owned subsidiary of MacroSolve, Inc., an Oklahoma corporation (“MacroSolve”), and effective April 30, 2014, in order to consolidate our operations into an entity incorporated in Nevada, MacroSolve merged with and into us. On June 3, 2014, we acquired Drone Aviation Corp. through a share exchange transaction, and on March 26, 2015, Drone Aviation Corp. merged with and into us. As a result of the share exchange and merger with Drone Aviation Corp., we acquired Drone Aviation Corp.’s subsidiary, LTAS. AFS became our subsidiary upon its formation on July 9, 2015. Unless the context otherwise requires, the terms “we,” “our,” “us,” and the “Company,” as used in this Annual Report refer to Drone Aviation Holding Corp. and its subsidiaries.

Our principal executive offices are located at 11651 Central Parkway #118, Jacksonville, Florida 32224 and our phone number is (904) 834-4400.

Business Overview

We design, develop, market and sell specialized tethered aerial monitoring and communications platforms serving national defense and security customers for use in applications including intelligence, surveillance and reconnaissance (“ISR”) and communications. We focus primarily on the development of a tethered aerostat known as the Winch Aerostat Small Platform (“WASP”) and have developed and sold tethered drone products, including the WATT electric drone and the FUSE Tether System designed for the DJI Matrice 200 (M200) professional drones. Our products are primarily designed for military and security applications where they can provide secure and reliable aerial monitoring for extended durations while being tethered to the ground via a high strength armored tether.

Products

WASP TACTICAL AEROSTATS

The WASP tethered aerostat system includes the WASP and WASP Lite, lighter-than-air (LTA), compact tactical aerostat platforms that are either self-contained on a trailer that can be towed by a military all-terrain vehicle, or “MATV,” or mine resistant ambush protected vehicle (“MRAP”) or other standard vehicle, operated from the bed of a pickup truck or mounted to a building rooftop. They are designed to provide semi-persistent, mobile, real-time day/night high definition video for ISR, detection of improvised explosive devices, border security and other governmental and civilian uses. All our products can also be utilized for disaster response missions by supporting two-way and cellular communications and acting as a repeater or provider of wireless networking.

The aerostat systems have a tethered envelope filled with helium gas and carry either a stabilized ISR or communications payload, portable ground control station and a datalink between the ground station and the envelope. Hovering between 500 and at up to 1,500 feet above the ground, the systems provide surveillance, electronic warfare and communications capabilities with relatively low acquisition and maintenance costs. The systems require an operational crew of a minimum of two personnel, relatively simple maintenance procedures, and feature quick retrieval and helium top-off for re-inflation.

The WASP is a mobile, tactical-sized aerostat capable of carrying a variety of payloads in support of military operations helping troops in the field gain a tactical edge while communicating over greater distances. The WASP leverages aerostat technology to elevate network payloads up to 90 pounds to an advantaged height of up to 1,500 feet, to enable persistent network connectivity while reducing risk to units conducting missions. U.S. Army-owned WASP tactical aerostats have successfully completed a number of field tests and exercises including the U.S. Department of Defense (“DoD”) Enterprise Challenge, Stormforce, and various Army Network Integration Evaluations, which allows the U.S. Government to evaluate, among other things, the WASP’s ability to provide secure communications and capture and relay real-time, high definition video to various handheld devices, tablet computers and other deployed systems. In October 2016, we were awarded contracts from a U.S. Government customer to integrate advanced communication solutions and optical payloads into their WASP aerostats which were delivered in March 2017. In October 2017 and October 2018, we were awarded contracts from a U.S. Government customer for our WASP tactical aerostat and spare parts, which were delivered in February 2018 and December 2018, respectively. In December 2018, we were awarded a contract from a U.S. Government customer which we expect to begin delivering late in the second quarter of 2019. Due to the recent Government shutdown which furloughed the staff required to approve our disclosure of contract details, we have not yet been able to provide all the specifics of this new relationship beyond what is discussed below in the Recent Developments section. Building upon a 10-year relationship with our U.S. Government customers, we will continue to support the U.S. Army-owned WASP systems for future operations and exercises.

The WASP Lite is a newly developed system that utilizes the proven fieldability of our larger WASP aerostat system incorporated into a small footprint design. It is a compact, non-trailer based, cost effective aerostat system that is highly mobile and can be setup and deployed virtually anywhere from the bed of pickup to a rooftop while anchored or moored. WASP Lite can move while deployed up to 40 mph and supports a wide range of lighter payloads including ISR, communications, and signal intelligence (SIGINT). We are currently engaged in flight testing and operational training with a DoD customer and working with other potential customers to demonstrate WASP Lite’s rapidly deployable, highly mobile, persistent ISR and communications capabilities.

OTHER TETHERED PRODUCTS

The Company has produced and sold in limited quantities other tethered aerial products including the electric-powered WATT and BOLT tethered drones and the FUSE Tether System.

WATT was our first model of a new line of commercial-grade powered tethered drones designed to provide secure and reliable aerial monitoring for extended durations while being connected to a ground-based, software-controlled winch via a safe and secure armored tether line. The concept of the tethered drone system is built on the strength of our experience in developing tethered solutions for our aerostat products and combining that with the advantages of multi-rotor copters. The result is a robust capability designed to be used in almost all-weather environments and controlled with the push of a button. The WATT is designed to take off, hover and land via remote control while connected by a proprietary tether technology where all data, controls and endurance are built into the tether. The same components and systems that our military customers rely on in our launcher systems are being incorporated into the self-contained copter system in order to produce a heavier-than-air, tethered product. WATT is designed to hover in a stationary position directly above its launch site at one of several preset altitudes of up to 300 feet for up to 8 hours while a highly-stabilized military-grade/broadcast quality HD video image can provide a 360° live aerial monitoring feed directly through the tether to its host vehicle or to a network of mobile devices, such as tablets or laptop computers. Compact and lightweight, the WATT system features the ability to draw power from either its host vehicle or independently provide up to 8 hours of operation through its own ground power equipment and is specially designed to be transported and deployed from commercial vehicles using its standard 120-volt adapter. Although a contract for WATT from a U.S. Government customer was awarded in September 2016 and delivered in December 2016, the Company believes it is a niche product and, as such, has focused our development and marketing efforts on the WASP systems.

Another electric tethered drone we announced in 2016 is called the BOLT. BOLT is designed to meet a wide range of military and commercial applications requiring persistent, heavy lift capabilities. The BOLT coaxial tethered helicopter delivers rapid setup, high mobility and whisper-quiet operations at altitudes of up to 800 feet. BOLT has a field changeable universal payload bay which supports radio, signals intelligence, or “SIGINT,” and ISR packages of up to 15 pounds and requiring up to 1 kilowatt of power. The Company continues to respond to interest from a select number of potential customers since the introduction and plans to complete development and custom manufacture each vehicle based on order specifications it receives in the future.

In May 2017 we introduced the FUSE Tether System which is an automated smart winch tethering system designed to meet the unique specifications for DJI professional drones, specifically, the Matrice 200 series. Utilizing our patent-pending power pack, DJI users can dramatically and affordably increase flight time with uninterrupted power from the ground via a tether and winch.

At present, consistent with our efforts to focus on our aerostat products, we are limiting investment in, or pursuit of, additional business development activity for our other tethered products to responses to direct inquiries from our existing customers.

Market

The market for our LTA advanced aerostats and tethered drones has grown significantly over the last several years and has seen interest increase significantly following the adoption of new commercial drone regulations (Part 107) adopted by the U.S. Federal Aviation Administration (“FAA”) at the end of August 2016 because our tethered drone product line is designed to comply with the FAA’s regulations. The military has transformed into a smaller, more agile fighting force in need of a network of technologies to provide improved observation, communication and precision targeting of combat troop locations, which are often embedded in dense population centers or dispersed in remote locations. Our products provide critical observation and communication capabilities serving the increased demand for ISR and communications, including real-time tactical reconnaissance, tracking, combat assessment and geographic data, while reducing the risks to our troops in theatre. Finally, in a highly constrained fiscal environment, we believe the typically lower acquisition and use/maintenance costs of LTA advanced aerostats and tethered drones make them more appealing compared to their heavier than air manned or larger LTA unmanned system alternatives.

The markets for our systems on a stand-alone basis and/or combined with other payloads relates to the following applications, among others:

Governmental Markets:

- International, federal, state and local governments and agencies thereof, including DoD, U.S. Drug Enforcement Agency, U.S. Homeland Security, U.S. Customs and Border Protection, U.S. Environmental Protection Agency, U.S. Department of State, U.S. Federal Emergency Management Agency, U.S. and state Departments of Transportation, penitentiaries, and police forces;
- Military, including the U.S. Army Space and Missile Defense Command and U.S. Air Force installations;
- ISR, including the United States Special Operations Forces;
- Border security monitoring, including U.S. Homeland Security, to deter and detect illegal entry;
- Drug enforcement along U.S. borders;
- Monitoring environmental pollution and sampling air emissions; and
- Vehicle traffic monitoring, including aerial speed enforcement by state and local law enforcement agencies.

Commercial Markets:

- TV and media production mobile communications systems, expanding on-site reporting capabilities to include aerial videography and photography;
- Agriculture monitoring, including monitoring crop health and fields monitoring to reduce costs and increase yields;
- Security for large events, including crowd management;
- Natural disaster instant infrastructure to support first responders;
- Oil pipeline monitoring and exploration; and
- Atmospheric and climate research.

Distribution

We sell our products directly to end customers and through distribution agreements with firms such as ADS Inc., a leading value-added logistics and supply chain solutions provider that serves the U.S. military, federal, state and local government organizations, law enforcement agencies, first responders, partner nations and the defense industry. In addition, we sell our products through several prime contractors and our products are included in the U.S. Government's GSA Schedule, which allows government customers to directly negotiate and acquire products and services from commercially-listed suppliers.

Competition

We believe that the principal competitive factors in the markets for the Company's tethered systems (aerostat and drones) include product performance, features, acquisition cost, lifetime operating cost, including maintenance and support, ease of use, integration with existing equipment, size, mobility, quality, reliability, customer support, brand and reputation.

Our proprietary and recently patented tethering technology, in particular, our tension control winch system, is an important competitive differentiator in the market. The winch systems utilized in our products have undergone extensive testing and continued refinement through coordination with customers, including the U.S. Army.

We believe the current market competitors to the WASP aerostat system include a large number of companies ranging from small "mom and pop" tethered aerostat and balloon companies to large defense contractors, including TCOM, Raytheon, Lockheed Martin, ISL, ILC Dover, Compass Systems, Raven Aerostar, American Blimp Corporation, and RT Aerostat Systems, Inc., the American subsidiary of Israeli aerostat company RT LTA. We believe there are numerous commercial drone companies, such as DJI and Parrot, offering free flying drones for pleasure and commercial use, as well as many larger drone manufactures, such as Northrop Grumman, AeroVironment, Inc. and Boeing, offering military grade free flying drones to the U.S. Government, which could compete with the WASP. There are very few commercial grade tethered drone competitors for our WATT tethered drone system that remain tethered to the ground via a high strength armored tether, including Aria Insights (formerly Cyphy Works Inc.) located in Danvers, MA, Elistair located in Lyon, France, Hoverfly Technologies, Inc. located in Orlando, Florida, and Skysapience located in Yokneam, Israel.

Many of our LTA aerostat competitors have received considerable funding from government or government-related sources to develop and build LTA aerostats. Most of these organizations and many of our other competitors have greater financial, technical, manufacturing, marketing and sales resources and capabilities than we do. We anticipate increasing competition as a result of defense industry consolidation, which has enabled companies to enhance their competitive position and ability to compete against us. In addition, other companies may introduce competing aerostats or solutions based on alternative technologies that may adversely affect our competitive position. As a result, our products may become less or non-competitive or obsolete. For further discussion of certain risks relating to competition, see "Item 1A. Risk Factors" of this Annual Report.

Technology, Research and Development

We conduct the development, commercialization and manufacturing of our products in-house at our facility in Jacksonville, Florida.

Our research and development efforts are largely focused on the LTA aerostat systems, including management and recovery of helium gas. We have developed an aerostat system called WASP LITE for use in commercial or governmental applications which do not require the same level of durability and ruggedness as the WASP, and we continue to work on different models with different payloads for various applications.

The concept of the powered drone systems is built on the strength of our years of developing tethered solutions for our LTA aerostat products combined with the advantages of rotor copters. The result is a robust product designed to be utilized in almost all-weather environments and controlled with the push of a button. Our tethered drones are designed to take off, hover and land via remote control all while being connected by a unique tether technology where all data, controls and endurance are built into the tether. The same components and systems that our military customers rely on from our launcher systems are incorporated into our self-contained tethered drone systems in order to produce a unique heavier than air, tethered product offering.

For the year ended December 31, 2018, we spent \$107,015 and for the year ended December 31, 2017, we spent \$351,768 on research and development activities. Research and development expenditures are not borne directly by customers nor are the costs accounted for in our pricing models. Throughout 2019, we do not anticipate significant increases in research and development expenses from levels reported in 2018 as we focus activities on continual, incremental improvement to the WASP platform in order to increase its features and capabilities.

Strategic Partners

We are party to several agreements with strategic partners and distributors to assist us with the marketing and sales of various products, as we currently have limited in-house sales capabilities. Current relationships include:

- A sales and distribution partnership with U.S. government prime contractor ADS Inc.;
- An exclusive teaming agreement with a non-affiliate U.S. government prime contractor;

Intellectual Property

On September 18 and 19, 2014, we filed provisional patent application numbers “62/052,289” and “62/052,946” entitled “Tethered Portable Aerial Media broadcast System” based on the tethered drone system. On September 18, 2015, we filed a utility patent application claiming a priority date of the two provisional patent applications and having application Serial Number “14858467” entitled “Apparatus and Methods for Tethered Aerial Platform and System.” On July 7, 2015, we filed a provisional patent application number “62/189,341” entitled “Apparatus, Methods and System for Tethered Aerial Platform.” On September 20, 2016, the United States Patent and Trademark Office (“USPTO”) issued patent number 9,446,858 entitled “Apparatus and methods for tethered aerial platform and system.” This new patent on our electric tethered aerial platform (“ETAP”) technologies covers the core systems currently incorporated into the WATT and BOLT products.

On April 19, 2016, we filed an application for registration of the trademark “Taming Altitude”. On August 7, 2018, the USPTO issued trademark number 5,532,648 entitled “Taming Altitude”.

In addition, the Company’s intellectual property portfolio includes an exclusive commercial license to vision-based navigation and advanced autonomous flight management software that it acquired in 2015 and exclusive commercial licenses to a number of unmanned vehicle technologies developed by Georgia Tech Research Corporation, including “GUST” (Georgia Tech UAV Simulation Tool) autopilot system.

Our success and ability to compete depends in part on our ability to develop and maintain our intellectual property and proprietary technology and to operate without infringing on the proprietary rights of others. As we continue the development of our aerial products, we expect that we will rely on patents, trade secrets, copyrights, trademarks, non-disclosure agreements and other contractual provisions. We have also registered the trademark “Blimp in a Box.” In certain cases, when appropriate, we opt to protect our intellectual property through trade secrets as opposed to filing for patent protection in order to preserve confidentiality. All of our employees are subject to non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights. For further discussion of risks relating to intellectual property, see “Item 1A. Risk Factors” of this Annual Report. For further discussion about the intellectual property rights and licenses and minimum royalties, see *Note 14 – Commitments and Contingencies* in the Notes.

Dependence on a Few Customers and Regulatory Matters

We believe there is a large, growing market for our commercial tethered drones internationally as well as in the U.S. With the recently enacted guidelines for commercial drone use in the U.S. by the FAA (Part 107), we have witnessed a growing U.S. market for commercial drone applications that our tethered drones can serve. Until the FAA officially adopted and published these guidelines in late August 2016, we and our customers were restricted to operating our tethered aerial products in the National Air Space under either FAA granted exemptions or Certificates of Authorization. In addition to domestic opportunities, we are evaluating various international markets where the FAA does not control the airspace and where our tethered drones can potentially be operated. We anticipate that the majority of our LTA aerostat revenue at least in the foreseeable future will come from U.S. Government and Government-related entities, including the DoD and other departments and agencies. Government programs that we may seek to participate in compete with other programs for consideration during Congress’s budget and appropriations hearings and may be affected by changes not only in political power and appointments, but also general economic conditions and other factors beyond our control. Reductions, extensions or terminations in a program that we are seeking to participate in or overall defense spending or delays in Government funding such as occurred in late December 2018 which shutdown certain departments and agencies, could adversely affect our ability to generate revenues and realize any profits. We cannot predict whether potential changes in security, defense and intelligence priorities will afford opportunities for our business in terms of research and development or product contracts, but any reduction in government spending on such programs could negatively impact our ability to generate revenues.

We have registered as a contractor with the U.S. Government and are required to comply with and will be affected by laws and regulations relating to the award, administration and performance of U.S. Government contracts. Government contract laws and regulations affect how we will do business with customers, and in some instances, will impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of any then existing contracts, or the inability to bid on future contracts. For further discussion of the risks relating to U.S. Government contracts and FAA rules and regulations, see “Item 1A. Risk Factors” of this Annual Report. For further discussion about our dependence on a few major customers see *Note 15 – Concentrations* in the Notes.

International sales of our products may also be subject to U.S. laws, regulations and policies like the U.S. Department of State restrictions on the transfer of technology, International Traffic in Arms Regulations (“ITAR”) and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. This may limit our ability to sell our products abroad and the failure to comply with any of these regulations could adversely affect our ability to conduct business and generate revenues as well as increase our operating costs. Our products may also be subject to regulation by the National Telecommunications and Information Administration and the Federal Communications Commission, which regulate wireless communications

Sources and Availability of Components

Certain materials and equipment for our products are custom made for those products and are available only from a limited number of suppliers. Failure of a supplier could cause delays in delivery of the products if another supplier cannot promptly be found or if the quality of such replacement supplier’s components is inferior or unacceptable. For further discussion of the risks relating to sources and availability of components, see “Item 1A. Risk Factors” of this Annual Report.

Employees

We have 18 full-time and two part-time employees. Our executive management and accounting team are comprised of six of those full-time employees. We have no labor union contracts and believe relations with our employees are satisfactory.

Recent Developments

Our marketing efforts include submission of bids on a several government procurement projects that we expect will be awarded in 2019. In the past, we also showcased our products and technologies at numerous conferences and live demonstrations, including the 2017 Special Operations Forces Industry Conference, Warrior Expo East and took part in a series of tests conducted on the southern border of the United States, State of Florida HURREX exercise, CyberQuest 2017, and presentations to a variety of federal and state government agencies. We have also increased marketing efforts and announced the following:

- On January 31, 2019, we announced that we secured an additional \$2.0 million in capital, completing a private placement raising an aggregate of \$4.0 million which will be used to expand production and staffing.
- On January 22, 2019, we announced the conclusion of training for a U.S. Army unit on the next generation WASP ERS tactical aerostat. The delivery of the \$1.7 million dollar order itself was announced on October 15, 2018.
- On January 15, 2019, we announced the expansion of our manufacturing capacity.
- On January 8, 2019, we announced that we had been selected by a prime contractor in an exclusive relationship to receive an initial award valued at \$3.8 million dollars.
- On December 27, 2018, we announced that we had eliminated over 70% of our existing debt in support of our planned growth.
- On November 8, 2018, we announced that our FUSE Tether System completed law enforcement flight operations at multiple large public events.

Department of Homeland Security and Customs and Border Protection

In July 2018, we entered into an exclusive teaming agreement with a U.S. Government prime contractor which is the recipient of a previously awarded IDIQ (indefinite delivery/indefinite quantity) prime contract from of the Department of Homeland Security (“DHS”), Customs and Border Protection (“CBP”). Under the terms of the teaming agreement:

- We will work together to propose retrofit and new production of surveillance systems developed under the prime contract; and
- We will provide the WASP aerostat, engineering support for WASP system integration, Field Service Representatives personnel support for WASP aerostat maintenance, training, WASP deployment, retrieval and movement, and warranty for WASP.

In December 2018, the prime contractor awarded us a subcontract valued at \$3.8 million for six WASP aerostat systems, which we have previously announced. These WASP powered surveillance systems are expected to be deployed at a CBP Border Patrol Sector on the southern border of the United States. There are 20 Border Patrol Sectors along U.S. borders, 9 of which are located along the U.S. Southern border. We have begun production of the initial units at our facilities in Florida and at our ISO 9001-certified manufacturing partner’s facility. Deliveries are expected to begin late in the second quarter of 2019 and continue throughout 2019. We are working closely with the prime contractor to explore additional product and services opportunities in DHS and CBP under our exclusive teaming agreement.

Item 1A. Risk Factors

Investors should carefully consider the risks described below as well as other information provided in this Annual Report. The Company’s business, financial condition, results of operations and cash flows could be materially adversely affected, the value of the Company’s common stock could decline, and investors may lose all or part of their investment as a result of these risks.

Risks Related to Our Business and Industry

Product development is a long, expensive and uncertain process.

The development of LTA aerostats and tethered drone ISR systems is a costly, complex and time-consuming process, and the investment in product development often involves a long wait until a return, if any, is achieved on such investment. We continue to make significant investments in research and development relating to our aerostats and tethered drones. Investments in new technology and processes are inherently speculative. Technical obstacles and challenges we encounter in our research and development process may result in delays in or abandonment of product commercialization, may substantially increase the costs of development, and may negatively affect our results of operations.

Successful technical development of our products does not guarantee successful commercialization.

Even if we successfully complete the technical development for one or all of our product development programs, we may still fail to develop a commercially successful product for a number of reasons, including, among others, the following:

- failure to obtain the required regulatory approvals for their use;
- prohibitive production costs;
- competing products;
- lack of innovation of the product;
- continuing technological changes in the market rendering the product obsolete;
- failure to scale-up our operations sufficiently to satisfy demand for our products;
- ineffective distribution and marketing;
- lack of sufficient cooperation from our partners; and
- demonstrations of the products not aligning with or meeting customer needs.

Although we have sold our WASP aerostat systems and various other aerostat ISR systems and components, our success in the market for the products we develop will depend largely on our ability to prove our products' capabilities. Upon demonstration, our aerostats and tethered drones may not have the capabilities they were designed to have or that we believed they would have. Furthermore, even if we do successfully demonstrate our products' capabilities, potential customers may be more comfortable doing business with a larger, more established, more proven company than us. Moreover, competing products may prevent us from gaining wide market acceptance of our products. We may not achieve significant revenue from new product investments for a number of years, if at all.

Our potential customers are likely to be U.S. Government or Government-related entities that are subject to appropriations by Congress and reduced funding for defense procurement and research and development programs would likely adversely impact our ability to generate revenues.

We anticipate that the majority of our revenue (to be derived from our aerostats product sales) at least in the foreseeable future will come from U.S. Government and Government-related entities, including the DoD and other departments and agencies. Government programs that we may seek to participate in, and contracts for aerostats or tethered drones, must compete with other programs for consideration during Congress' budget and appropriations hearings, and may be affected by changes not only in political power and appointments but also general economic conditions and other factors beyond our control. A government closure based on a failure of Congress to agree on federal appropriations or the uncertainty surrounding a continuing resolution may result in termination or delay of federal funding opportunities we are pursuing. Reductions, extensions or terminations in a program that we are seeking to participate in or overall defense or other spending could adversely affect our ability to generate revenues and realize any profits. We cannot predict whether potential changes in security, defense, communications and intelligence priorities will afford opportunities for our business in terms of research and development or product contracts, but any reduction in government spending on such programs could negatively impact our ability to generate revenues. In addition, our ability to participate in U.S. Government programs may be affected by the adoption of new laws or regulations relating to Government contracting or changes in existing laws or regulations, changes in political or public support for security and defense programs, and uncertainties associated with the current global threat environment and other geo-political matters.

Some of our products may be subject to governmental regulations pertaining to exportation.

International sales of our products may be subject to U.S. laws, regulations and policies like ITAR and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. If we are not allowed to export our products or the clearance process is burdensome, our ability to generate revenue would be adversely affected. The failure to comply with any of these regulations could adversely affect our ability to conduct our business and generate revenues as well as increasing our operating costs.

We compete with companies that have significantly more resources than we have and that already have received government contracts for the development of aerostats and tethered drones.

A number of our competitors have received considerable funding from government or government-related sources to develop various aerostats and tethered drones. Most of these organizations and many of our other competitors have greater financial, technical, manufacturing, marketing and sales resources and capabilities than we do. Our products will compete not only with other aerostats and tethered drones, but also with heavier-than-air fixed wing aircraft, manned aircraft, communications satellites and balloons. We anticipate increasing competition as a result of defense industry consolidation, which has enabled companies to enhance their competitive position and ability to compete against us. In addition, other companies may introduce competing aerostats, tethered drones, or solutions based on alternative technologies that may adversely affect our competitive position. As a result, our products may become less or non-competitive or obsolete. If we are not able to compete successfully against our current and future competitors, we may fail to generate revenues and our financial condition would be adversely affected.

We may pursue strategic transactions in the future, which could be difficult to implement, disrupt our business or change our business profile significantly.

We intend to consider potential strategic transactions, which could involve acquisitions of businesses or assets, joint ventures or investments in businesses, products or technologies that expand, complement or otherwise relate to our current or future business. We may also consider, from time to time, opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. These activities create risks such as, among others: (i) the need to integrate and manage the businesses and products acquired with our own business and products, (ii) additional demands on our resources, systems, procedures and controls, (iii) disruption of our ongoing business, and (iv) diversion of management's attention from other business concerns. Moreover, these transactions could involve: (a) substantial investment of funds or financings by issuance of debt or equity securities; (b) substantial investment with respect to technology transfers and operational integration; and (c) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the issuance of or assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources of our company. Any such activity may not be successful in generating revenue, income or other returns to us, and the resources committed to such activities will not be available to us for other purposes. Moreover, if we are unable to access capital markets on acceptable terms or at all, we may not be able to consummate acquisitions or may have to do so on the basis of a less than optimal capital structure. Our inability to: (i) take advantage of growth opportunities for our business or for our products or (ii) address risks associated with acquisitions or investments in businesses may negatively affect our operating results. Additionally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment or charges to earnings associated with any acquisition or investment activity may materially reduce our earnings. These future acquisitions or joint ventures may not result in their anticipated benefits, and we may not be able to properly integrate acquired products, technologies or businesses with our existing products and operations or combine personnel and cultures. Failure to do so could deprive us of the intended benefits of those acquisitions.

If we fail to protect our intellectual property rights, we could lose our ability to compete in the marketplace.

Our intellectual property and proprietary rights are important to our ability to remain competitive and for the success of our products and our business. Patent protection can be limited and not all intellectual property is or can be patented. We rely on a combination of patent, trademark, copyright, and trade secret laws as well as confidentiality agreements and procedures, non-competition agreements and other contractual provisions to protect our intellectual property, other proprietary rights and our brand. We have little protection when we must rely on trade secrets and nondisclosure agreements. Our intellectual property rights may be challenged, invalidated or circumvented by third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees or competitors. Furthermore, our competitors may independently develop technologies and products that are substantially equivalent or superior to our technologies and/or products, which could result in decreased revenues for us. Moreover, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Litigation may be necessary to enforce our intellectual property rights, which could result in substantial costs to us and substantial diversion of management attention. If we do not adequately protect our intellectual property, our competitors could use it to enhance their products. Our inability to adequately protect our intellectual property rights could adversely affect our business and financial condition and the value of our brand and other intangible assets.

If we fail to protect our intellectual property rights, our ability to pursue the development of our technologies and products would be negatively affected.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property and technologies. Some foreign countries lack rules and methods for defending intellectual property rights and do not protect proprietary rights to the same extent as the United States. We have not filed for any patent protection rights outside the United States, and many companies have had difficulty protecting their proprietary rights in foreign countries. We may not be able to prevent misappropriation of our proprietary rights.

The patent process is subject to numerous risks and uncertainties and there can be no assurance that we will be successful in protecting our technologies by obtaining and enforcing patents. These risks and uncertainties include the following: patents that may be issued or licensed may be challenged, invalidated, or circumvented, or otherwise may not provide any competitive advantage; our competitors, many of which have substantially greater resources than us and many of which have made significant investments in competing technologies, may seek, or may already have obtained, patents that will limit, interfere with, or eliminate our ability to make, use, and license our technologies either in the United States or in international markets; there may be significant pressure on the United States government and other international governmental bodies to limit the scope of patent protection both inside and outside the United States for technologies that prove successful as a matter of public policy regarding security concerns; countries other than the United States may have less restrictive patent laws than those upheld by United States courts, allowing foreign competitors the ability to exploit these laws to create, develop, and market competing products.

Moreover, any patents issued to us may not provide us with meaningful protection, or others may challenge, circumvent or narrow our patents. Third parties may also independently develop technologies similar to ours or design around any patents on our technologies.

In addition, the USPTO and patent offices in other jurisdictions have often required that patent applications concerning software inventions be limited or narrowed substantially to cover only the specific innovations exemplified in the patent application, thereby limiting the scope of protection against competitive challenges. Thus, even if we or our licensors are able to obtain patents, the patents may be substantially narrower than anticipated.

Our success depends on our patents, patent applications that may be licensed exclusively to us, and other patents to which we may obtain assignment or licenses. We may not be aware, however, of all patents, published applications, or published literature that may affect our business by blocking our ability to commercialize our products, by preventing the patentability of future products or services to us or our licensors, or by covering the same or similar technologies that may invalidate our patents, limit the scope of our future patent claims or adversely affect our ability to market our products and services.

In addition to patents, we rely on a combination of trade secrets, confidentiality, nondisclosure and other contractual provisions, and security measures to protect our confidential and proprietary information. These measures may not adequately protect our trade secrets or other proprietary information. If they do not adequately protect our rights, third parties could use our technology, and we could lose any competitive advantage we may have. In addition, others may independently develop similar proprietary information or techniques or otherwise gain access to our trade secrets, which could impair any competitive advantage we may have.

Patent protection and other intellectual property protection are crucial to the success of our business and prospects, and there is a substantial risk that such protections will prove inadequate.

Other companies may claim that we infringe their intellectual property, which could materially increase our costs and harm our ability to generate future revenue and profit.

We do not believe our product technologies infringe the proprietary rights of any third party, but claims of infringement are becoming increasingly common and third parties may assert infringement claims against us. It may be difficult or impossible to identify, prior to receipt of notice from a third party, the trade secrets, patent position or other intellectual property rights of a third party, either in the United States or in foreign jurisdictions. Any such assertion may result in litigation or may require us to obtain a license for or otherwise restrict our use of the intellectual property rights of third parties. If we are required to obtain licenses to use any third-party technology, we would have to pay royalties, which may significantly reduce any profit on our products. In addition, any such litigation could be expensive and disruptive to our ability to generate revenue or enter into new market opportunities. If any of our products are found to infringe other parties' proprietary rights and we are unable to come to terms regarding a license with such parties, we may be forced to modify our products to make them non-infringing or to cease production of such products altogether.

The nature of our business involves significant risks and uncertainties that may not be covered by insurance or indemnity.

We develop and sell products where insurance or indemnification may not be available, including:

- Designing and developing products using advanced and unproven technologies and aerostats and tethered drones in intelligence and homeland security applications that are intended to operate in high demand, high risk situations; and
- Designing and developing products to collect, distribute and analyze various types of information.

Failure of certain of our products could result in loss of life or property damage. Certain products may raise questions with respect to issues of civil liberties, intellectual property, trespass, conversion and similar concepts, which may raise new legal issues. Indemnification to cover potential claims or liabilities resulting from a failure of technologies developed or deployed may be available in certain circumstances, but not in others. We are not able to maintain insurance to protect against all operational risks and uncertainties. Substantial claims resulting from an accident, failure of our product, or liability arising from our products in excess of any indemnity or insurance coverage (or for which indemnity or insurance is not available or was not obtained) could harm our financial condition, cash flows, and operating results. Any accident, even if fully covered or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively.

If critical components or raw materials used to manufacture our products become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products, which could damage our business

We rely on a limited number of suppliers for the raw materials and hardware components necessary to manufacture our products. We do not have any long-term agreements with any of our suppliers that obligate them to continue to sell their products to us. Our reliance on these suppliers involves significant risks and uncertainties as to whether our suppliers will provide an adequate supply of required raw materials, component parts, and products. In addition, as the demand for these components and other products increases, it is likely that the price for these components will increase. If we are unable to obtain the raw materials including helium gas used in our aerostat products to provide lift, and component parts in the quantities and the quality we require on a timely basis and at acceptable prices, we may not be able to deliver our products on a timely or cost-effective basis, which could cause our customers to terminate their contracts with us, increase our costs and materially harm our business, results of operations, and financial condition. Furthermore, if our suppliers are unable or unwilling to supply the raw materials or components we require, we will be forced to locate alternative suppliers and possibly redesign our products to accommodate components from alternative suppliers. This would likely cause significant delays in manufacturing and shipping our products to customers and could materially harm our business.

Our future profitability may depend on achieving cost reductions from increasing manufacturing quantities of our products. Failing to achieve such reductions in manufacturing costs could materially affect our business.

We have limited experience manufacturing our products in high volumes and do not know whether or when we will be able to develop efficient, low-cost manufacturing capabilities and processes that will enable us to manufacture our products in large quantities while maintaining our quality, speed, price, engineering and design standards. Our inability to develop such manufacturing processes and capabilities could have a material adverse effect on our business, financial condition, and results of operations. We expect our suppliers to experience an increase in demand for their products, and we may not have reliable access to supplies that we require and may not be able to purchase such materials or components at cost effective prices. There is no assurance that we will obtain any material labor and machinery cost reductions associated with higher production levels, and failure to achieve these cost reductions could adversely impact our business and financial results.

If we are unable to recruit and retain key management, technical and sales personnel, our business would be negatively affected.

For our business to be successful, we need to attract and retain highly qualified technical, management and sales personnel. The failure to recruit additional key personnel when needed with specific qualifications and on acceptable terms or to retain good relationships with our partners might impede our ability to continue to develop, commercialize and sell our products. To the extent the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting and training costs in order to attract and retain such employees. The loss of any members of our management team may also delay or impair achievement of our business objectives and result in business disruptions due to the time needed for their replacements to be recruited and become familiar with our business. We face competition for qualified personnel from other companies with significantly more resources available to them and thus may not be able to attract the level of personnel needed for our business to succeed.

Economic conditions in the U.S. and worldwide could adversely affect our revenues.

Our revenues and operating results depend on the overall demand for our technologies and services. If the U.S. and worldwide economies weaken, either alone or in tandem with other factors beyond our control (including war, political unrest, shifts in market demand for our services, actions by competitors, etc.), we may not be able to maintain or expand the growth of our revenue.

We have significant debt and if we are unable to repay our debt when it becomes due, our business, financial condition and results of operations could be materially harmed.

At February 28, 2019, we had total debt obligations of \$2,000,000, and an aggregate of \$0 available for borrowings under our revolving line of credit from City National Bank of Florida. Of this debt, \$2,000,000 matures on August 2, 2019. Our level of indebtedness could have significant effects on our business, such as:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy and other purposes;
- requiring us to dedicate a portion of our cash flow from operations to pay interest on our debt, which would reduce availability of our cash flow to fund working capital, capital expenditures, potential acquisitions, execution of our growth strategy and other general corporate purposes;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our ability to plan for and react to changing conditions; and
- placing us at a competitive disadvantage compared with our competitors that have less debt.

We may not be able to generate sufficient cash flow from our operations to repay our indebtedness when it becomes due and to meet our other cash needs. If we are not able to pay our debts as they become due, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional debt or equity securities. We may not be able to refinance our debt or sell additional debt or equity securities or sell our assets on favorable terms, if at all, and if we must sell our assets, we may negatively affect our ability to generate revenue.

If we are unable to obtain additional funding when needed, our business operations will be harmed, and if we do obtain additional financing, our then existing shareholders may suffer substantial dilution.

We have historically required additional funds to continue operations and may again in the future upon maturity of the City National Bank of Florida revolving line of credit which matures on August 2, 2019 or sooner if our cash needs exceed the \$0 currently available to us under these loan facilities. We do not have any contracts or commitments for additional funding, and there can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all, if needed. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to conduct business operations. If we are unable to obtain additional financing to finance a revised growth plan, we will likely be required to curtail such plans or cease our business operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

Opportunities for expanded uses of our products in the United States are limited by federal laws and rulemaking.

The products we design and manufacture for use within the United States are limited by federal laws and rulemaking, including the new commercial drone regulations (Part 107) adopted by the FAA at the end of August 2016. Our ability to design, manufacture and release new products for use in the United States will be limited by federal law and regulations, which can be slow and subject to delays based on political turnover and disruptions in federal funding, among other reasons. The Part 107 rules limit the altitude, available airspace and weight of a drone and also the certification of remote pilots that can operate a drone for commercial purposes in the United States. We, or our customers, may seek waivers from the Part 107 rules for expanded operations; however, the processing of waivers is lengthy and uncertain. Political limits on the ability to issue new regulations could slow the growth of the aerostat and tethered drone market.

Misuse of our products or unmanned products manufactured by other companies could result in injury, damage and/or negative press that could depress the market for unmanned systems.

If any of our products are misused by our customers or their designees, or by the operators of other unmanned systems, in violation of Part 107 or other federal, state or local regulations could result in injuries to the operators or bystanders, damage to property and/or negative press that could result in a reduction in the market for aerostats or tethered drones in the future. The FAA, the press and the public have been closely monitoring the growth of unmanned systems in the United States. For instance, the FAA regularly publishes reports of drone sighting and reported drone strikes of manned aircraft. One or more incidents involving unmanned systems that results in injury or death of individuals, or damaged property could result in negative press that could put at risk current and future growth.

Our business and operations are subject to the risks of hurricanes, tropical storms, and other natural disasters.

Our corporate headquarters and manufacturing operations are located in Jacksonville, Florida, where major hurricanes, tropical storms, and other severe weather conditions have occurred. A significant natural disaster, such as a hurricane, tropical storm, or other severe weather storm could severely affect our ability to conduct normal business operations, and as a result, our future operating results could be materially and adversely affected.

Risks Relating to our Common Stock and its Market Value

The price of our common stock may be volatile.

The trading price of our common stock may be highly volatile and could be subject to fluctuations in response to a number of factors beyond our control. Some of these factors are:

- dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we have made and expect to make in connection with future acquisitions and capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;
- our results of operations and the performance of our competitors;
- the public's reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission (the "SEC");

- changes in earnings estimates or recommendations by research analysts who follow, or may follow, us or other companies in our industry;
- changes in general economic conditions;
- changes in the valuation of similarly situated companies, both in our industry and in other industries;
- actions of our historical equity investors, including sales of common stock by our directors and executive officers;
- actions by institutional investors trading in our stock;
- disruption of our operations;
- any major change in our management team;
- significant sales of our common stock;
- other developments affecting us, our industry or our competitors; and
- U.S. and international economic, legal and regulatory factors unrelated to our performance.

These and other factors are largely beyond our control, and the impact of these risks, individually or in the aggregate, may result in material adverse changes to the market price of our common stock and/or our results of operations and financial condition.

There is a limited market for our common stock, which may make it more difficult to dispose of our common stock.

Our common stock is quoted on the OTCQB under the symbol “DRNE”. However, this is an unorganized, inter-dealer, over-the-counter market which provides significantly less liquidity than the NASDAQ Capital Market or other national securities exchanges. These factors may have an adverse impact on the trading and price of our common stock.

Sales of substantial amounts of our common stock in the public market could harm the market price of our common stock.

The sale of a substantial number of shares of our common stock by stockholders could adversely affect the market price of our common stock. As of December 31, 2018, we had 102 stockholders of record and as of December 6, 2016, the date we held our last Annual Shareholder Meeting, there were approximately 5,600 beneficial owners, most of whom have held their shares for the required holding periods under Rule 144 promulgated pursuant to the Securities Act and thus hold freely tradable shares. The shares issued pursuant to conversions under our Series A, B, B-1, D, E, F and G Preferred Stock at various times are now freely tradable pursuant to Rule 144 promulgated pursuant to the Securities Act. If such shares are sold, or if it is perceived they will be sold, the trading price of our common stock could decline. Because investors may be more reluctant to purchase shares of our common stock following substantial sales or issuances, the resale of these shares of common stock could impair our ability to raise capital in the near term.

We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as our Board of Directors may consider relevant.

Our common stock is subject to the “penny stock” rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The SEC has adopted Rule 15g-9 which establishes the definition of a “penny stock,” for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person’s account for transactions in penny stocks; and
- that the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information, investment experience, and investment objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination;
- that it is unlawful for the broker or dealer to effect a transaction in a penny stock unless the broker or dealer has received a signed, written agreement from the investor prior to the transaction; and
- that the broker dealer is required to provide the person with the foregoing written statement and that the person should not sign the written statement unless it accurately reflects the person’s financial situation, investment experience, and investment objectives.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

FINRA sales practice requirements may also limit a shareholder’s ability to buy and sell our stock.

In addition to the “penny stock” rules described above, Financial Industry Regulatory Authority, Inc. (“FINRA”) has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit a stockholder’s or investor’s ability to buy and sell our stock and have an adverse effect on the market for our shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive office is located at 11651 Central Parkway #118, Jacksonville, Florida 32224. Several of our management employees work remotely. We have entered into a 60-month operating lease for 5,533 square feet of office and manufacturing space at 11651 Central Parkway #118, Jacksonville, Florida 32224. The lease commenced February 1, 2015 and we took occupancy in June 2015. On March 1, 2019, the Company entered into a 36-month operating lease for 2,390 square feet in Holly Hill, Florida for aerostat manufacturing. Several of our executives work from home-based offices in Florida, Virginia and Oklahoma and receive nominal reimbursement for home office expenses.

Item 3. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are currently party to the following material legal proceeding:

Banco Popular North America v Aerial Products Corporation d/b/a Southern Balloon Works, et al. (Fourth Judicial Circuit Court, Duval County Florida-Civil Division) Case No. 16:2016:CA-003343

On May 16, 2016, Banco Popular North America (“Banco”) filed a lawsuit in Duval County, Florida in the Circuit Court of the Fourth Judicial Circuit against Aerial Products Corporation d/b/a Southern Balloon Works (“Aerial Products”), Kevin M. Hess, LTAS, and the Company to collect on a delinquent Small Business Administration loan that Banco made in 2007 to Aerial Products with Mr. Hess as the personal guarantor. LTAS and the Company filed an Answer on June 30, 2016 and Responses to Interrogatories on December 16, 2016 and we are now in the discovery phase of litigation. On August 31, 2017, LTAS and the Company filed Responses to Production of Documents. The lawsuit is active and discovery is ongoing. It is our position that neither LTAS nor the Company are continuations of Aerial Products, and LTAS and the Company has denied all allegations made by Banco and is vigorously defending itself. The Company has evaluated the probability of loss as possible, but the range of loss is unable to be estimated.

Other than as set forth above, there are no pending material claims, actions, suits, proceedings, inquiries, labor disputes or investigations involving the Company.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Price Range of Common Stock

The Company's common stock is quoted on the OTCQB tier of the OTC Markets, Inc. under the ticker symbol "DRNE".

The following sets forth the range of the bid prices for our common stock for the quarters for the prior two fiscal years. Such prices represent inter-dealer quotations, do not represent actual transactions, and do not include retail mark-ups, markdowns or commissions. Such prices were determined from information provided by a majority of the market makers for the Company's common stock.

Holdings

Quarter Ended	2018		2017	
	Bid Price		Bid Price	
	High	Low	High	Low
March 31	\$ 1.20	\$ 0.70	\$ 2.99	\$ 2.17
June 30	0.90	0.68	2.27	1.35
September 30	0.75	0.61	1.45	0.71
December 31	0.69	0.47	1.65	0.89

As of March 21, 2019, there were approximately 102 stockholders of record, according to the records of our transfer agent, and an unknown number of additional holders whose stock is held in 'street name'. The closing price of our common stock on the OTCQB on March 21, 2019 was \$0.81.

Dividends

We have not declared any common stock dividends to date. We have no present intention of paying any cash dividends on our common stock in the foreseeable future, as we intend to use earnings, if any, to generate growth. The payment by us of dividends, if any, in the future, is within the discretion of our Board of Directors and will depend upon, among other things, our earnings, capital requirements and financial condition, as well as other relevant factors. There are no material restrictions in our Articles of Incorporation, as amended, or Bylaws that restrict us from declaring dividends.

Recent Sales of Unregistered Securities

All sales of unregistered securities during the period covered by this Annual Report have been previously disclosed.

On December 21, 2018 an aggregate of \$5,000,000 of principal amount of debt and \$104,075 of accrued interest was converted to 10,208,151 shares of unregistered common stock at a conversion price of \$0.50 per shares.

On December 27, 2018 the Company completed the sale of 4,000,000 shares of its unregistered common stock at \$0.50 per share for an aggregate of \$2,000,000 in the initial closing of the previously disclosed Amended and Restated Stock Purchase Agreement.

Item 6. Selected Financial Data.

Not required under Regulation S-K for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

The following management discussion and analysis of financial condition and results of operations (this "MD&A") should be read in conjunction with our Consolidated Financial Statements and the notes to those statements (the "Notes") that appear elsewhere in this Annual Report. Except for the historical information contained therein, the discussions in this MD&A contain forward-looking statements based upon current expectations that involve risks and uncertainties, such as plans, strategies, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under "Item 1A. Risk Factors" and elsewhere in this Annual Report.

Business Overview

For this information please see "Item 1. Business" of this Annual Report. The information regarding an overview of our business is set forth under "Item 1. Business—Business Overview" of this Annual Report and is incorporated into this MD&A by this reference.

Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total Net Revenues: Total net revenues increased \$2,160,635, or 384%, to \$2,722,713 in 2018 from \$562,078 in 2017. Sources of revenue were derived primarily from aerostat products and accessories ordered in 2018 and delivered in 2018. The reason for the increase is that revenues in 2017 were primarily related to refurbishments and enhancements of aerostat systems and the revenues in 2018 were primarily from the sale of two aerostat systems. We expect increased sales in future periods based on a product pipeline developed following our increased marketing efforts discussed in Item 1. Business-Business Overview included elsewhere in this report.

Cost of Goods Sold and Gross Profit: Cost of goods sold for 2018 increased \$1,875,587, or 554%, from \$338,579 in 2017 to \$2,214,166 in 2018, primarily consisting of materials, parts and labor associated with the sale of aerostat systems and FUSE tether systems. A total charge of approximately \$565,000 was taken on inventory written off as slow moving. The Company is focusing exclusively on its aerostat products due to demand and determined that approximately \$143,000 in FUSE tether system inventory, \$204,000 payload inventory, \$186,000 powered drone inventory and \$32,000 other inventory was unlikely to be monetized in the next twelve months. The \$508,547 gross profit for 2018 was an increase of \$285,048 or 128% from the \$223,499 in gross profit for 2017. Gross profit margins were 19% and 40% for 2018 and 2017, respectively. The gross profit margin in 2018 was negatively affected by the inventory written off by 20% as gross profit on revenue without regard to the write offs was 39%. Margins also vary based on customer payload selection; therefore, future margins may vary accordingly.

General and Administrative Expenses: General and administrative ("G&A") expense primarily consists of payroll and related costs, sales and marketing costs, research and development costs, business overhead and costs related to maintaining a public entity. G&A expense decreased by \$1,430,477, or 14%, to \$8,639,364 in 2018 from \$10,069,841 in 2017. Contributing to the decrease was non-cash stock-based compensation which decreased \$1,856,201 or 28% in 2018 to \$4,746,605 from \$6,602,806 in 2017. Research and development expenses decreased \$244,753 or 70% to \$107,015 in 2018 from \$351,768 in 2017. This decrease was anticipated as the Company is relying on past research and development to support its current products. Future research and development costs are not expected to rise significantly. Marketing expense in 2018 was \$185,284 which was a decrease of \$128,900, or 41%, from marketing expense of \$314,184 in 2017. During 2017, the Company conducted a thirty-day demonstration on the US/Mexican border which caused an increase that year. Legal expense decreased \$73,747 or 56% to \$58,671 in 2018 from \$132,418 in 2017. Legal defense costs in the Banco matter decreased approximately \$28,000 in 2018 and the Company saved approximately \$40,000 on securities counsel when it changed representation to another highly qualified firm. Payroll expense increased by \$940,570 or 70% to \$2,275,256 in 2018 from \$1,334,686 in 2017. Payroll increased approximately \$84,000 due to bringing a contractor onto salary, \$75,000 due to the bonus effect of payroll taxes paid on the vesting of the September 2016 stock awards and \$670,000 bonuses approved for milestone achievements in 2018, \$350,000 of which remain accrued at December 31, 2018 and salary adjustments.

Loss from Operations: Loss from operations for 2018 of \$8,130,817 was a decrease of \$1,715,525, or 17%, less than the loss from operations in 2017 of \$9,846,342. The increase was primarily due to the increase in gross profit of \$285,048 and by the decrease in general and administrative expense of \$1,430,477 as discussed above.

Other Income and Expense: Total other expense of \$344,496 in 2018 was \$133,154, or 28%, less than the total other expense of \$477,650 in 2017. This decrease was primarily due to interest expense on bank and related party notes payable of \$344,496 for 2018 which was \$126,989 or 58% greater than the \$217,507 interest expense for that debt in 2017 offset by \$(260,143) combined effect of amortization of discount to convertible note, accounting for derivative gain and debt extinguishment recognized in 2017.

Net Loss: Net loss of \$8,475,313 in 2018 was \$1,848,679, or 18%, less than the net loss in 2017 of \$10,323,992 primarily due to the factors discussed above.

There was no provision for income taxes for the fiscal years ended 2018 and 2017 due to a valuation allowance of \$2,968,891 and \$2,250,939 recorded for the years ended December 31, 2018 and 2017, respectively, on the total tax provision, because we believed that it is more likely than not that the tax asset will not be utilized during the next year.

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. As of December 31, 2018, the Company had \$2,282,365 in cash compared to \$615,375 in cash at December 31, 2017, an increase of \$1,666,990. As of December 31, 2018, the Company had accounts receivable of \$18,000 compared to \$110,065 at December 31, 2017, a decrease of \$92,065 resulting from increased collections in 2018.

The Company had total current assets of \$2,697,903 and total current liabilities of \$2,485,024, or working capital of \$212,879 at December 31, 2018 a favorable comparison to total current assets of \$1,820,145 and total current liabilities of \$2,377,340, or working capital deficit of \$557,195 at December 31, 2017.

We have historically financed our operations through operating revenues, loans from banks and shareholders and sales of equity and convertible debt securities. As of December 31, 2018, we have cash of \$2,282,365, including \$2,000,000 proceeds from the sale of common stock on December 28, 2018, we have a working capital of \$212,879 and incurred a net loss from operations in 2018 of \$8,475,313. Furthermore, the Company has a history of negative cash flow from operations, primarily due to historically heavy investment in research and development and costs associated with maintaining a public entity.

The cash balance of \$2,282,365 at December 31, 2018 included \$2,000,000 proceeds from the sale of common stock on December 28, 2018. On December 21, 2018 we announced that the holders of the 2016 and 2017 convertible notes converted their loans to common stock which eliminated \$5,000,000 in short term and long-term debt. On January 25, 2019, the Company sold an additional \$2,007,750 in common stock.

In the event we are unable to refinance our revolving line of credit from City National Bank of Florida in August 2019, we may not have sufficient resources to continue our operations for the next 12 months and to effectuate all aspects of our business plan. We may have to raise additional funds to pay for all of our planned expenses. We potentially will have to issue additional debt or equity or enter into a strategic arrangement with a third party to carry out some aspects of our business plan. If we need to raise additional funds through the issuance of equity, equity-related or convertible debt securities in the future, these securities may have rights, preferences or privileges senior to those of the rights of holders of our common stock. We cannot predict whether additional financing will be available to us on favorable terms when required, or at all. The issuance of additional common stock may have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock. Historically, we have financed our cash needs by private placements of our securities and loans, bank financing and revenues from sales of our products. There is no assurance that we will be able to obtain financing on terms consistent with our past financings or satisfactory to us, if at all.

We currently have no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources. Since we have no other such arrangements or plans currently in effect, our inability to raise funds for the above purposes will have a severe negative impact on our ability to remain a viable company. We are dependent upon our significant shareholders to provide or loan us funds to meet our working capital needs.

In anticipation of increased sales resulting from our developing product pipeline, we completed financing transactions that provided us with increased liquidity and a strengthened balance sheet. The following is a summary of these completed financing transaction:

Revolving Line of Credit from City National Bank of Florida. On August 2, 2017, the Company issued a promissory note to City National Bank of Florida (“CNB”) in the principal amount of \$2,000,000, the CNB Note, with a maturity date of August 2, 2018. On September 26, 2018, the Company and CNB agreed to extend the maturity date of the promissory note to August 2, 2019. The Company evaluated the modification under ASC 470-50 and determined that it did not qualify as an extinguishment of debt. The note evidences a revolving line of credit with advances that may be requested by the Company until the maturity date of August 2, 2019 so long as no event of default exists under the note, the Company or Mr. Nussbaum does not cease doing business, Mr. Nussbaum does not seek to revoke or modify his guarantee of the Note, the Company does not misapply the proceeds of this loan or CNB in good faith does not believe itself insecure. The initial CNB Note bore an interest rate at a variable rate equal to 0.250 percentage points over the Wall Street Journal Prime Rate payable monthly. At renewal, the variable rate was increased to 1.0 percentage points over the Wall Street Journal Prime Rate. The Company will pay to CNB a late charge of 5.0% of any monthly payment not received by Lender within 10 calendar days after its due date. The Company may prepay the note at any time without penalty. In the event of a default, the interest rate will increase to the highest lawful rate. The Company is obligated to maintain depository accounts with CNB with a minimum average annual balance of \$1,600,000 based on the Company and Guarantor’s annualized balances. In the event the Company does not maintain this account balance, CNB may charge the Company a fee equal to 2% of the deficiency as additional interest under the note. The CNB Note is personally guaranteed by Mr. Nussbaum, the Company’s Chief Executive Officer pursuant to written guarantee in favor of CNB (the “CNB Guarantee”). Mr. Nussbaum and the Company are obligated to maintain an aggregate unencumbered liquidity of no less than \$6,000,000 in the form of cash, repurchase agreements, certificates of deposit or marketable securities acceptable to CNB. In addition, to secure our obligations under the note, we entered into a security agreement in favor of CNB (the “Security Agreement”) encumbering all of our accounts, inventory and equipment along with an assignment of a bank account we maintain at CNB with a balance of \$120,000. As of December 31, 2018, \$2,000,000 has been drawn against the line of credit, an increase of \$1,000,000 over the balance at December 31, 2017.

Series 2017 Secured Convertible Note. On December 21, 2018, the Company entered into an amendment with Frost Nevada Investments Trust to reduce the conversion price under such notes to \$0.50 per share in exchange for Frost Nevada’s agreement to convert the principal amount and accrued interest under such notes concurrently with the execution of the amendment. The Company issued 4,030,740 shares of common stock to Frost Gamma in full settlement of the \$2,000,000 principal balance and \$15,370 accrued interest.

Convertible Promissory Notes Series 2016. On December 21, 2018, the Company entered into amendments with the owners and holders of the Series 2016 Convertible Notes to reduce the conversion price under such notes to \$0.50 per share in exchange for the holders of such convertible notes agreement to convert the principal amount and accrued interest under such notes concurrently with the execution of the amendment. The Company issued 3,177,411 shares of common stock to Frost Gamma in full settlement of the \$1,500,000 principal balance and \$88,705 accrued interest. The Company issued 3,000,000 shares of common stock to Jay Nussbaum in full settlement of the \$1,500,000 principal balance and settled \$88,212 accrued interest in cash.

The accompanying consolidated financial statements and notes have been prepared assuming the Company will continue as a going concern. For the year ended December 31, 2017, the Company incurred a net loss of \$10,323,992, generated negative cash flow from operations, has an accumulated deficit of \$29,996,777 and working capital deficit of \$557,195. At that time, those circumstances raised substantial doubt as to the Company's ability to continue as a going concern. During 2018, the Company met or exceeded the factors that predicated the going concern in 2017 which is more fully described in *Note 2-Management's Liquidity Plan* in the Notes. The Company's ability to continue as a going concern is dependent upon the Company's ability to create and market innovative products, raise capital, reduce debt or renegotiate terms, and to sustain adequate working capital to finance its operations. The failure to achieve the necessary levels of profitability and cash flows or obtain additional funding would be detrimental to the Company. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Sources and Uses of Cash

	<u>Years Ended Dec 31,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows (used in) operating activities	\$ (2,387,731)	\$ (3,326,022)
Cash flows provided by (used in) investing activities	54,721	(73,817)
Cash flows provided by financing activities	4,000,000	2,000,000
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,666,990</u>	<u>\$ (1,399,839)</u>

Operating Activities:

Net cash used in operating activities during 2018 was \$2,387,731, which was a decrease of \$938,291, or 28%, from \$3,326,022 net cash used in operating activities during 2017. The net loss of \$8,475,313 for 2018 was \$1,848,679 less than the same period of 2017, which was \$10,323,992. Inventory decreased \$683,772 to \$307,925 in 2018 primarily due to a write down of \$565,406 for parts and finished goods not expected to be monetized in the next twelve months. The Company recorded \$4,746,605 in non-cash stock-based compensation expenses which was a decrease of \$1,856,201 in 2018 from the previous year. The company recognized a non-cash gain on derivative liability of \$1,831,635 offset by \$1,409,790 amortization of debt discount expense and \$681,988 loss on debt extinguishment in 2017.

Investing Activities:

Net cash provided by investing activities was \$54,721 in 2018 compared to \$73,817 net cash used in investing activities in 2017, a positive difference of \$128,538. Net cash provided by investing activities for 2018 was comprised of \$60,000 from the sale of a vehicle partially offset in both periods by purchases of fixed assets that included shop machines and equipment, computers, electronics and furniture and equipment. The Company plans to invest in upgraded aerostat manufacturing equipment and leasehold improvements for newly leased space to accommodate expanded aerostat manufacturing in 2019.

Financing Activities:

Financing activities during 2018 and 2017 included \$1,000,000 proceeds from a bank line of credit, \$1,000,000 proceeds from a related party convertible note payable and \$100,000 proceeds from a short-term related party note which was subsequently repaid. In 2018, financing activity included \$2,000,000 proceeds from the sale of common stock.

As of December 31, 2018, the Company has common stock outstanding, as well as a bank line of credit.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

The following is not intended to be a comprehensive list of our accounting policies or estimates. Our significant accounting policies are more fully described in *Note 1—Summary of Significant Accounting Policies* in the Notes. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies and estimates as disclosed in the Notes. We consider the policies and estimates discussed below as critical to an understanding of our financial statements because their application places the most significant demands on our judgment, with financial reporting results dependent on estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Specific risks for these critical accounting estimates are described in the following paragraphs. The impact and any associated risks related to these estimates on our business operations are discussed throughout this MD&A where such estimates affect our reported and expected financial results. Preparation of this Annual Report requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Besides estimates that meet the “critical” accounting estimate criteria, we make many other accounting estimates in preparing our financial statements and related disclosures. All estimates, whether or not deemed critical, affect reported amounts of assets, liabilities, revenue and expenses as well as disclosures of contingent assets and liabilities. Estimates are based on experience and other information available prior to the issuance of the financial statements. Materially different results can occur as circumstances change and additional information becomes known, including for estimates that we do not deem “critical.”

Accounts Receivable and Credit Policies:

Accounts receivable-trade consists of amounts due from the sale of tethered aerostats, accessories, spare parts, and customization and refurbishment of aerostats. Such accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days of receipt of the invoice. We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts based on historical collection experience and a review of the current status of trade accounts receivable. At December 31, 2018 and 2017, none of the Company’s accounts receivable-trade was deemed uncollectible.

Revenue Recognition and Unearned Income:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) “Revenue from Contracts with Customers.” Topic 606 supersedes the revenue recognition requirements in Topic 605 “Revenue Recognition” (Topic 605). The new standard’s core principal is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring good or services to a customer. The principals in the standard are applied in five steps: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. We recognized the cumulative effect of adopting this guidance as an adjustment to our opening balance of retained earnings. Prior periods will not be retrospectively adjusted. The adoption of Topic 606 does not have a material impact to our consolidated financial statements, including the presentation of revenues in our Consolidated Statements of Operations, which were not broken down by revenue stream or geographic areas since the Company only sells within the United States and has only one revenue stream.

Long-Lived Assets:

We account for long-lived assets in accordance with the provisions of ASC 360-10-35, “Impairment or Disposal of Long-lived Assets.” This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

On July 20, 2015, we, through our wholly-owned subsidiary AFS, entered into an agreement to acquire exclusive commercial software licenses for the “GUST” (Georgia Tech UAV Simulation Tool) autopilot system from AFI. Through the purchase of the assets of AFI, we assumed the transferable licenses from the Georgia Tech Research Corporation, which include flight simulation tools and fault tolerant flight control algorithms. In addition, we acquired AFI’s dedicated flight computer and additional related hardware and airframes. We paid \$100,000 in immediately available funds and \$100,000 were held in escrow. In addition, we issued 150,000 shares of unregistered common stock valued at \$8.40 per share, on a post-reverse split basis, on the closing date of the acquisition, to be held in escrow. We issued 50,000 shares of common stock to AFI in the second quarter of 2016 after all milestones had been met as a requirement of the terms of the acquisition because the value of the escrowed shares fell below \$1,400,000 and triggered a ‘make whole’ provision. The asset acquisition with AFI did not qualify as a business combination under ASC 805-10, “Business Combinations,” and has been accounted for as a regular asset purchase.

We account for goodwill and intangible assets in accordance with ASC 350, “Intangibles-Goodwill and Other.” ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Derivative Financial Instruments:

We evaluate our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, we use a Black-Scholes option pricing model, in accordance with ASC 815-15, “Derivative and Hedging,” to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Employee Stock-Based Compensation:

We account for stock-based compensation in accordance with ASC 718, “Compensation-Stock Compensation.” ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period.

Non-Employee Stock-Based Compensation:

The Company accounts for stock-based compensation in accordance with the provision of ASC 505-50, “Equity Based Payments to Non-Employees,” which requires that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the least term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations cash flows or financial condition.

Other than those pronouncements, management does not believe that there are any other recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on the Company’s financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required under Regulation S-K for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements, together with the independent registered public accounting firm report of MaloneBailey, LLP, begin on page F-1 of this Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Annual Report. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2018, due to the weakness in internal control over financial reporting described below, our disclosure controls and procedures are not designed at a reasonable assurance level or effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As discussed below, we plan on increasing the size of our accounting staff at the appropriate time for our business and its size to ameliorate our auditor’s concern that the Company does not effectively segregate certain accounting duties, which we believe would resolve the material weakness in internal control over financial reporting and similarly improve disclosure controls and procedures, but there can be no assurances as to the timing of any such action or that the Company will be able to do so.

(b) Management’s Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. Based on that assessment, our management determined that, as of December 31, 2018, the Company's internal control over financial reporting was not effective for the purposes for which it is intended. Specifically, management's determination was based on the following material weakness which existed as of December 31, 2018:

The Company did not effectively segregate certain accounting duties due to the small size of its accounting staff.

A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Notwithstanding the determination that our internal control over financial reporting was not effective, as of December 31, 2018, and that there was a material weakness as identified in this Annual Report, we believe that our consolidated financial statements contained in this Annual Report fairly present our financial position, results of operations and cash flows for the years covered hereby in all material respects.

This Annual Report does not include an attestation report by MaloneBailey LLP, our independent registered public accounting firm, regarding internal control over financial reporting. As a smaller reporting company, our management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Annual Report.

Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. In the prior year, we identified a material weakness related to not maintaining a fully-integrated financial reporting system which has since been remediated. There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Although we plan to increase the size of our accounting staff at the appropriate time for our business and its size to ameliorate our auditor's concern that the Company does not effectively segregate certain accounting duties, there can be no assurances as to the timing of any such action or that the Company will be able to do so.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth the names and ages of the members of our Board of Directors and our executive officers and the positions held by each. Our Board of Directors elects our executive officers annually by majority vote. Each director's term continues until his or her successor is elected or qualified at the next annual meeting, unless such director earlier resigns or is removed.

NAME	AGE	Positions and Offices
Jay H. Nussbaum	74	Chairman of the Board of Directors and Chief Executive Officer
Daniyel Erdberg	40	President
Kendall Carpenter	63	Chief Financial Officer, Executive Vice President, Secretary and Treasurer
Kevin Hess	52	Chief Technology Officer
Felicia Hess	51	Chief Operating Officer
Timothy Hoechst	53	Director and Chairman of the Compensation Committee
John E. Miller	77	Director and Chairman of the Audit Committee
David Aguilar	63	Director
Robert Guerra	71	Director

Executive Biographies:

Jay H. Nussbaum, 74, joined our Board of Directors on June 1, 2015 and was named Chief Executive Officer on April 26, 2016. He has extensive executive experience and expertise in government and commercial sales and management. Mr. Nussbaum is the founder of Agilex Technologies, Inc. and served as its Vice Chairman and Chief Operating Officer from 2006 to March 2015, when it was acquired by Accenture Federal Services, a provider of mission and technology solutions to the national security, healthcare and public sectors of the U.S. government. He previously served as Executive Vice President of Oracle Service Industries ("Oracle"), under Oracle's then Chairman and Chief Executive Officer Larry Ellison, where Mr. Nussbaum oversaw Government, Education, Health, Communications, Utilities and Financial Services operations. He also served as Global Head of Sales, Marketing and Business Development for Citigroup Global Transaction Services, and as President of Integrated Systems Operation at Xerox Corp. Mr. Nussbaum has been a director of Grand Slam Acquisition Corp. since October 24, 2007, a director of Victory Acquisition Corp. since January 12, 2007 and a director at Agilex Technologies, Inc. since 2006. Mr. Nussbaum is a graduate of the University of Maryland with a B.A. in Business. Mr. Nussbaum's government and commercial sales and management experience qualifies him to serve on our Board of Directors.

Daniyel Erdberg, 40, was appointed Chief Operating Officer upon the closing of the Share Exchange on June 3, 2014. He resigned that position on October 2, 2015 and was appointed President that same day. Mr. Erdberg served as Director of Business Development at WSGI, a developer of lighter-than-air aerostats and unmanned aerial systems, from 2010 through May 2014, where he worked with LTAS and specialized in advanced, custom designed ISR solutions. Mr. Erdberg successfully worked with LTAS's aerial surveillance solutions for various government and commercial customers. Over the past 15 years, Mr. Erdberg has been involved in operations of companies in various sectors of technology, including software development, telecommunications, wireless networking and unmanned aerial systems. Mr. Erdberg graduated from Florida International University with a B.A. in International Business.

Kendall W. Carpenter, CPA, CGMA, CMA, 63, joined MacroSolve in 2006 as Controller. She was promoted to Executive Vice President and Chief Financial Officer in 2008 and transitioned to Drone Aviation in 2014. Ms. Carpenter is also the Corporate Secretary and Treasurer. Ms. Carpenter's previous experience includes Division Controller with Allied Waste Industries, over 10 years of experience as the top financial officer of an enterprise software company with an international customer base and over 8 years of public accounting experience. Ms. Carpenter graduated with a B.S. in Accounting from Oklahoma State University and has earned the professional designations of Certified Public Accountant, Chartered Global Management Accountant and Certified Management Accountant.

Kevin Hess, 52, was appointed Chief Technology Officer on April 27, 2016. He served as Chief Executive Officer between October 2, 2015 and April 27, 2016. Upon the closing of the Share Exchange on June 3, 2014, he was appointed Director of Engineering. Mr. Hess served as a Director between October 2, 2015 and May 28, 2018. Mr. Hess has more than 20 years of technology experience comprising electronic systems design for DoD programs and image processing and analytics for companies such as Hughes, Kodak and Dainippon. Mr. Hess has been integrally involved with LTAS as an engineer and consultant since its founding in 2009, overseeing the development of its proprietary aerostat and drone products. As an IT executive at Fortune 250 companies, Mr. Hess performed lead roles in software development, application architecture, mission-critical infrastructure, and multi-million dollar project sponsorship and oversight. Mr. Hess continues to leverage his background and education in computer science, having attended the Harvard Business School's Program for Management Development to further his strong track record of technology innovation and financial management. Mr. Hess brings his unique talents to the design, manufacturing and support of our solutions. Effective March 31, 2019, Mr. Hess will voluntarily terminate his employment agreement and will begin providing CTO and other services to the Company through Cognitive Carbon Corporation, a company wholly owned by Felicia Hess, Mr. Hess' spouse and our Chief Quality Officer.

Felicia Hess, 51, was appointed Chief Executive Officer and one of our directors upon the closing of the Share Exchange on June 3, 2014. She resigned those positions on October 2, 2015 and was appointed Chief Operating Officer that same day. On December 4, 2018, Ms. Hess was moved to the newly created position of Chief Quality Officer. Ms. Hess founded and began serving as President and a director of LTAS in 2009. Ms. Hess continued serving as President and a director of LTAS after it was sold in 2013 to World Surveillance Group Inc. ("WSGI"), a developer of lighter-than-air aerostats and unmanned aerial systems, and continued serving as President and a director of LTAS after it was acquired from WSGI by Drone Aviation Corp. until Drone Aviation Corp. merged with and into us. Ms. Hess leverages her background in marketing, web site development and customer acquisition to further the Company's growth strategies. Ms. Hess graduated from the University of Virginia with a B.A. in Rhetoric and Communications.

Timothy Hoechst, 53, was appointed to our Board of Directors on December 13, 2017 and agreed to serve as Chair of the Compensation Committee. Prior to his retirement in June 2016, Mr. Hoechst held the position of Chief Technology Officer at Accenture Federal Services (AFS), a leading IT solutions provider to the US government from March 2015 until June 2016. At AFS, he was responsible for identifying and introducing new technologies to help the government with challenging IT problems. From March 2007 until March 2015, he served as Chief Technology Officer at Agilex Technologies, an IT consulting firm service the Department of Defense, Homeland Security and various government agencies. Agilex was acquired by AFS in 2015. From June 1997 until December 2006, Mr. Hoechst held senior positions at Oracle Corporation, including serving as Senior Vice President of the Public Sector Division. Mr. Hoechst has a B.A. in Computer Science from Harvard University. Mr. Hoechst's government and management experience qualifies him to serve on the board of directors and its committees on which he serves.

John E. Miller, 77, was appointed to our Board of Directors on December 13, 2017 and agreed to serve as Chair of the Audit Committee. From September 2007 to the present, General Miller has operated his own consulting practice providing operational and technical assessments in support of fielding new military hardware and innovations for military training and education. From January 2005 until August 2007, he served as a Divisional President for L-3 Communication providing linguist, intelligence analyst and technical support for deployed forces in 13 countries. From September 1997 to January 2005, LTG Miller was a regional Vice President for Oracle Corporation's Public Sector Division. Lieutenant General Miller (Retired) is a decorated combat veteran who served in the US Army from 1963 to 1997. At the time of his retirement from active duty on September 1, 1997, he was serving as the Deputy Commanding General of the US Army Training and Doctrine Command (TRADOC) responsible for coordinating the implementation of the Army's first digitized command and control system in a combat brigade. He also had multiple assignments at the US Army Command and General Staff College where help positions from Tactics Instructor to Commandant. While Commandant, he was concurrently responsible for 11 other Army Schools that provide tactical training and education for Commissioned and Non-Commissioned Officers. General Miller holds a B.S. in Mathematics from Missouri State University and an M.S. in Operations Research from Georgia Tech. He is a graduate of the Army Command and General Staff College and the Army War College. For these reasons, we believe General Miller has the requisite set of skills and experience to serve as a valuable member of our Board of Directors and its committees on which he serves.

David Aguilar, 63, was appointed to our Board of Directors on January 9, 2017. Since February 2013, Mr. Aguilar has been a principal at Global Security Innovation Strategies, LLC. In April 2010, Mr. Aguilar became Deputy Commissioner of U.S. Customs and Border Protection (“CBP”) and, from December 2011 until his retirement in February 2013, he served as acting Commissioner of CBP. From July 2004 to January 2010, he served as Chief of the U.S. Border Patrol within the CBP. As Acting Commissioner of CBP, Mr. Aguilar took the helm of a workforce of 60,000 agents, officers, and other personnel with responsibility for strategic planning and oversight of an annual budget of nearly \$12 billion. Mr. Aguilar is a recipient of the 2005 President’s Meritorious Excellence Award, and in 2008, was a recipient of the Presidential Rank Award. Prior to joining the CBP, Mr. Aguilar held a variety of operational and administrative positions within the U.S. Board Patrol since entering duty in June 1978. Mr. Aguilar holds an Associate Degree in Accounting from Laredo Community College and attended Laredo State University and the University of Texas at Arlington. He is a graduate of the Senior Executive Fellows program at Harvard University’s John F. Kennedy School of Government. Mr. Aguilar’s government and management experience qualifies him to serve on the board of directors.

Robert Guerra, 71, was appointed to our Board of Directors on March 28, 2018. Since 2002, Mr. Guerra has been the Executive Vice President of Guerra Kiviat, Inc., a strategic sales consulting firm specializing in Federal Government solution selling, sales strategy and tactics, and market analysis and positioning. Immediately before that, he was a founding partner of Guerra, Kiviat, Flyzik & Associates, Inc. in 2003 and has been President of Robert J. Guerra & Associates from 1993 to the present. Mr. Guerra has been on the Sysorex Board of Advisors since 2011. On five occasions, Mr. Guerra was selected as one of Federal Computer Week’s Federal 100 award recipients. He was selected as the Federal of Government Information Processing Councils (FGIPC) “Industry Executive of the Year” in 1997. Mr. Guerra holds a Bachelor of Business Administration degree concentrating in Finance from St. John Fisher College in Rochester, New York. Mr. Guerra’s government and management experience qualifies him to serve on the board of directors and its committees on which he serves.

All executive officers are employed under agreements which run through December 31, 2019.

Family Relationships

Kevin Hess, our Chief Technology Officer, is married to Felicia Hess, our Chief Quality Officer.

Meetings of the Board of Directors

During the fiscal year ended December 31, 2018, our Board of Directors held three meetings and approved certain actions by unanimous written consent. We expect our directors to attend all meetings of the Board of Directors and the committees thereof on which such directors serve and to spend the time needed to prepare for such meetings and meet as frequently as necessary to properly discharge their responsibilities.

Board Committees and Director Independence

Even though we are not required to have any committees of the Board of Directors, our board has two standing committees: an Audit Committee and a Compensation Committee.

Our Board of Directors has determined in its business judgment that General John Miller, David Aguilar, Robert Guerra and Timothy Hoechst are independent within the meaning of the OTCQX Rules for U.S. Companies, the Sarbanes-Oxley Act of 2002, as amended, and related SEC rules.

Audit Committee

The Board of Directors has adopted a written charter for the Audit Committee. Our Audit Committee is responsible for: (1) the integrity of our financial reporting process, systems of internal controls, and financial statements and reports; (2) the compliance by us with legal and regulatory requirements; and (3) the appointment, compensation and oversight of our independent auditor’s preparation and issuance of an audit report or related work. A more detailed description of our Audit Committee’s purposes and responsibilities is contained in its charter. The Audit Committee is comprised of Chairman General John Miller, Jay Nussbaum, Robert Guerra and Timothy Hoechst. Our Board of Directors has determined in its business judgment that, other than Mr. Nussbaum, all of the members of our Audit Committee are independent within the meaning of the OTCQX Rules for U.S. Companies, the Sarbanes-Oxley Act of 2002, and related SEC rules. None of our directors is an “audit committee financial expert” within the meaning of Item 401(e) of Regulation S-K. During the fiscal year ended December 31, 2018, our Audit Committee held one meeting independent of the Board of Directors.

Compensation Committee

Our Board of Directors has adopted a written charter setting forth the authority and responsibilities of the Compensation Committee. Our Compensation Committee has responsibility for assisting the Board of Directors in, among other things, evaluating and making recommendations regarding the compensation of our executive officers and directors, assuring that the executive officers are compensated effectively in a manner consistent with our stated compensation strategy, producing an annual report on executive compensation in accordance with the rules and regulations promulgated by the SEC, periodically evaluating the terms and administration of our incentive plans and benefit programs, and monitoring of compliance with the legal prohibition on loans to our directors and executive officers. A more detailed description of our Compensation Committee's purposes and responsibilities is contained in its charter. The Compensation Committee is comprised of Chairman Timothy Hoechst, Robert Guerra and General Miller. Our Board of Directors has determined in its business judgment that a majority of our Compensation Committee is independent within the meaning of the OTCQX Rules for U.S. Companies and SEC rules. During the fiscal year ended December 31, 2018, our Compensation Committee held one meeting.

Board Leadership Structure and Role in Risk Oversight

Our Board of Directors is primarily responsible for overseeing our risk management processes. Our Board of Directors receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our Company's assessment of risks. The Board of Directors focuses on the most significant risks facing our Company and our Company's general risk management strategy, and also ensures that risks undertaken by our Company are consistent with the Board's appetite for risk. While the Board oversees our Company, our Company's management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our Company and that our Board leadership structure supports this approach.

Section 16(a) Beneficial Owner Reporting Compliance

Because we do not have a class of securities registered under Section 12 of the Exchange Act, our executive officers and directors and beneficial owners of more than 10% of our common stock are not required to file reports pursuant to Section 16(a) of the Exchange Act.

Code of Ethics

The Company has adopted a Code of Ethics and Business Conduct that applies to all of its directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, and any person performing similar functions) and employees. The Code of Ethics and Business Conduct is available on our website at ir.droneaviationcorp.com/governance-docs.

Item 11. Executive Compensation.

The following table provides certain summary information concerning compensation awarded to, earned by or paid to the individuals who served as our principal executive officer during fiscal 2018 and our two other most highly compensated officers in fiscal 2018.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(4)	Option Awards \$(5)	All Other Compensation (\$)	Total (\$)
Jay Nussbaum, Chief Executive Officer and Chairman (1),	2018	245,000	225,000	315,000	848,017	29,096	1,662,113
	2017	128,000	0	0 ⁽¹⁾	2,380,417	0	2,508,417
Felicia Hess, Chief Operating Officer (2)	2018	150,833	25,000	302,050	347,904	22,744	848,531
	2017	150,000	0	0 ⁽²⁾	1,182,460	0	1,332,460
Daniyel Erdberg, President (3)	2018	165,833	175,000	232,750	347,904	17,525	939,012
	2017	156,250	0	0 ⁽³⁾	1,035,378	3,500	1,195,128

- (1) For service as Chief Executive Officer in 2018, Mr. Nussbaum received one option award. On August 22, 2018, Mr. Nussbaum was awarded a Stock Option to purchase 1,950,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. One September 26, 2018, the August 22, 2018 Option was cancelled and reissued as 2,350,000 shares with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$848,017 expense in 2018 on the September 26, 2018 Option award. Mr. Nussbaum received a bonus of \$29,096 for taxes paid on his behalf on the March 28, 2018 vesting of 450,000 shares of stock issued in September 2016 valued at \$315,000 on the date vested. Mr. Nussbaum earned a 2018 year-end bonus of \$225,000 of which \$125,000 was paid in 2018 and the balance of \$100,000 to be paid in 2019.

For service as Chief Executive Officer in 2017, Mr. Nussbaum received two option awards. The first award of 2,000,000 option shares were immediately vested with a strike price of \$1.00 and an expiration date of August 3, 2021 and valued at \$1,284,925. The second award of 900,000 option shares were immediately vested with a strike price of \$1.35 and an expiration date of November 9, 2021 and valued at \$830,734. On December 21, 2018 these two 2017 options were modified to an exercise price of \$0.50 per share. The Company recognized an additional \$164,156 and \$100,602 expense in 2018 on these August 3 and November 9, 2017 option awards, respectively.

- (2) On December 4, 2018 Ms. Hess's title changed to Chief Quality Officer.

For service as Chief Operating Officer and Chief Quality Officer in 2018, Ms. Hess received one option award. On August 22, 2018, Ms. Hess was awarded a Stock Option to purchase 800,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. One September 26, 2018, the August 22, 2018 Option was cancelled and reissued as 1,000,000 shares with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$347,904 expense in 2018 on the September 26, 2018 Option award. Ms. Hess received a bonus of \$22,744 for taxes paid on her behalf on the March 28, 2018 vesting of 431,500 shares of stock issued in September 2016 valued at \$302,050 on the date vested. Ms. Hess earned a 2018 year-end bonus of \$25,000 of which \$0 was paid in 2018 and the balance of \$25,000 to be paid in 2019.

For service as Chief Operating Officer in 2017, Ms. Hess received two option awards. The first award of 1,200,000 option shares were immediately vested with a strike price of \$1.00 and an expiration date of August 3, 2021 and valued at \$773,522. The second award of 300,000 option shares were immediately vested with a strike price of \$1.35 and an expiration date of November 9, 2021 and valued at \$276,911. On December 21, 2018 these two 2017 options were modified to an exercise price of \$0.50 per share. The Company recognized an additional \$98,493 and \$33,534 expense in 2018 on these August 3 and November 9, 2017 option awards, respectively.

- (3) For service as President in 2018, Mr. Erdberg received one option award. On August 22, 2018, Mr. Erdberg was awarded a Stock Option to purchase 800,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. On September 26, 2018, the August 22, 2018 Option was cancelled and reissued as 1,000,000 shares with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$347,904 expense in 2018 on the September 26, 2018 Option award. Mr. Erdberg received a bonus of \$17,525 for taxes paid on his behalf on the March 28, 2018 vesting of 332,500 shares of stock issued in September 2016 valued at \$232,750 on the date vested. Mr. Erdberg earned a 2018 year-end bonus of \$175,000 of which \$150,000 was paid in 2018 and the balance of \$25,000 to be paid in 2019.

For service as President in 2017, Mr. Erdberg received two option awards. The first award of 1,140,000 option shares were immediately vested with a strike price of \$1.00 and an expiration date of August 3, 2021 and valued at \$734,846. The second award of 200,000 option shares were immediately vested with a strike price of \$1.35 and an expiration date of November 9, 2021 and valued at \$184,607. On December 21, 2018 these two 2017 options were modified to an exercise price of \$0.50 per share. The Company recognized an additional \$93,569 and \$22,356 expense in 2018 on these August 3 and November 9, 2017 option awards, respectively.

- (4) Amounts shown in the "Stock Awards" column reflect the aggregate grant date fair value calculated in accordance with FASB ASC 718 for the respective fiscal year with respect to shares of restricted stock and immediately vested shares granted to our named executive officers. Amounts reflect our accounting for these awards and do not necessarily correspond to the actual values that may be realized by our named executive officers. The grant date fair values of shares of restricted stock and immediately vested shares were determined as of the grant date using the closing bid price of our common stock on the grant date. The assumptions used for the valuations are set forth in *Note 9 – Shareholder Equity* in the Notes. Pursuant to SEC rules, we disregarded the estimates of forfeitures related to service-based vesting conditions. See the Outstanding Equity Awards at Fiscal Year-End Table in this Annual Report and related notes for information with respect to equity awards made prior to fiscal 2017.
- (5) Amounts shown in the "Option Awards" column reflect the aggregate grant date fair value calculated in accordance with FASB ASC 718 for the respective fiscal year with respect to stock options granted to our named executive officers. Amounts reflect our accounting for these option grants and do not necessarily correspond to the actual values that may be realized by our named executive officers. The grant date fair values of these option grants were calculated at the grant date using the Black-Scholes-Merton option-pricing model. The assumptions used for the valuations are set forth in *Note 11 – Employee Stock Options* in the Notes. Pursuant to SEC rules, we disregarded the estimates of forfeitures related to service-based vesting conditions. See the Outstanding Equity Awards at Fiscal Year-End Table in this Annual Report and related notes for information with respect to stock options granted prior to fiscal 2017.

Employment Contracts and Potential Payments Upon Termination or Change in Control

Jay Nussbaum Employment Agreement. On April 27, 2016, we entered into an Employment Agreement with Jay Nussbaum (as amended, the “Nussbaum Employment Agreement”), whereby Mr. Nussbaum agreed to serve as our Chief Executive Officer and a director (with such service as a director subject to the terms of a Director Agreement, dated June 1, 2015) for a period of two (2) years and twenty-two (22) days, subject to renewal for successive one year terms, in consideration of an annual salary of \$1 base salary. The Nussbaum Employment Agreement was subsequently amended to extend the term of Mr. Nussbaum’s employment to December 31, 2018. On December 4, 2018, the Nussbaum Employment Agreement was amended to reflect an increase in Mr. Nussbaum’s base salary to \$300,000 and to extend his term of employment to December 31, 2019. Additionally, Mr. Nussbaum is eligible for an annual cash bonus in an amount equal to up to one hundred fifty percent (150%) of his then-current base salary if we meet or exceed criteria adopted by the Compensation Committee of the Board of Directors. Mr. Nussbaum shall also be eligible for grants of awards under stock option or other equity incentive plans of our Company as our Compensation Committee may from time to time determine and shall be entitled to participate in all benefits plans we provide to our senior executives. We shall reimburse Mr. Nussbaum for all reasonable out-of-pocket expenses actually incurred or paid by Mr. Nussbaum in the course of his employment. In the event Mr. Nussbaum’s employment is terminated without Cause or by Mr. Nussbaum with Good Reason (as such terms are defined in the Nussbaum Employment Agreement), then in addition to receiving accrued but unpaid compensation and vacation pay through the end of the term of employment, benefits accrued and outstanding under benefit plans, and the reimbursement of documented, unreimbursed expenses prior to the date of termination, Mr. Nussbaum will be entitled to receive severance benefits equal to six months of his then-current base salary, continued coverage under our benefit plans for a period of twelve months and payment of his pro-rated earned annual bonus. Mr. Nussbaum has also agreed to non-competition and non-solicitation provisions effective during his term of employment and for one year thereafter.

Kevin Hess Employment Agreement. On October 2, 2015, October 2, 2015, we entered into an Amended and Restated Employment Agreement with Kevin Hess (as further amended, the “K. Hess Employment Agreement”), whereby Mr. Hess agreed to serve as our Chief Executive Officer for a period of two (2) years, subject to renewal for successive one-year terms, in consideration for an annual salary of \$200,000. On April 27, 2016, the Company and Mr. Hess amended the K. Hess Employment Agreement to reflect Mr. Hess’s appointment as Chief Technology Officer and extend the term of employment until May 18, 2018, which was further extended to December 31, 2018 pursuant to a subsequent amendment to the K. Hess Employment Agreement. On December 4, 2018, the K. Hess Employment Agreement was amended to reflect an increase in Mr. Hess’ base salary to \$225,000 and to extend his term of employment to December 31, 2019. Additionally, Mr. Hess is eligible for an annual cash bonus in an amount equal to up to one hundred fifty percent (150%) of his then-current base salary if we meet or exceed criteria adopted by the Compensation Committee of the Board of Directors. Mr. Hess shall also be eligible for grants of awards under stock option or other equity incentive plans of our Company as our Compensation Committee may from time to time determine and shall be entitled to participate in all benefits plans we provide to our senior executives. We shall reimburse Mr. Hess for all reasonable out-of-pocket expenses actually incurred or paid by Mr. Hess in the course of his employment. In the event Mr. Hess’ employment is terminated without Cause or by Mr. Hess with Good Reason (as such terms are defined in the K. Hess Employment Agreement), Mr. Hess shall be entitled to receive his accrued and unpaid base salary through the date of termination, continued coverage under our benefit plans for a period of one months and reimbursement of documented, unreimbursed expenses incurred prior to the date of termination. Mr. Hess has also agreed to non-competition and non-solicitation provisions effective during the term of his employment and for one year thereafter. On March 21, 2019, we entered into a Voluntary Separation Agreement with Mr. Hess. Pursuant to the terms of Voluntary Separation Agreement, the parties agreed that Mr. Hess would cease to be an employee of the Company, effective March 31, 2019. We also entered into an Independent Contractor Agreement on March 21, 2019 pursuant to which Mr. Hess will provide certain CTO and other services to the Company through Cognitive Carbon Corporation. Pursuant to the terms of the Independent Contractor Agreement, we agreed to engage, effective March 31, 2019, Cognitive Carbon Corporation, a company wholly owned by Felicia Hess, Mr. Hess’ spouse and our Chief Quality Officer, to provide certain CTO services and sales and marketing services. In exchange for provision of such services, we agreed to provide Cognitive Carbon Corporation a monthly fee of \$19,750. In addition, Cognitive Carbon Corporation may receive a bonus up to a maximum amount of \$300,000 based on the criteria set forth in the Independent Contractor Agreement. Mr. Hess will perform the CTO and other services on behalf of Cognitive Carbon Corporation.

The Independent Contractor Agreement has a term of one year, with automatic 12-month renewals thereafter unless the Company notifies its intent not to renew with 30 days of renewal. Either party may terminate the Independent Contractor Agreement upon written notice of material breach by the other party that is not cured within 15 days from the date of notice.

Felicia Hess Employment Agreement. On May 18, 2015, we entered into an employment agreement with Felicia Hess (as amended, the “F. Hess Employment Agreement”), whereby Ms. Hess agreed to serve as our Chief Executive Officer and director for a period of two (2) years, subject to renewal for successive one-year terms, in consideration for an annual salary of \$150,000. On October 2, 2015, Ms. Hess resigned as Chief Executive Officer and as a director, and the F. Hess Employment Agreement was amended to reflect Ms. Hess’s appointment as Chief Operating Officer. The F. Hess Employment Agreement was subsequently amended to extend the term of Ms. Hess’s employment to December 31, 2018. On December 4, 2018, the F. Hess Employment Agreement was amended to reflect an increase in Ms. Hess’ base salary to \$160,000 and to extend her term of employment to December 31, 2019. Ms. Hess title was also changed to Chief Quality Officer. Under the F. Hess Employment Agreement, Ms. Hess is eligible for an annual cash bonus in an amount equal to up to one hundred fifty percent (150%) of her then-current base salary if we meet or exceed criteria adopted by the Compensation Committee of the Board of Directors. Ms. Hess shall also be eligible for grants of awards under stock option or other equity incentive plans of our Company as our Compensation Committee may from time to time determine and shall be entitled to participate in all benefits plans we provide to our senior executives. We shall reimburse Ms. Hess for all reasonable out-of-pocket expenses actually incurred or paid in the course of her employment. In the event Ms. Hess’ employment is terminated without Cause or by Ms. Hess with Good Reason (as such terms are defined in the F. Hess Employment Agreement), , then in addition to receiving accrued but unpaid compensation and vacation pay through the end of the term of employment, benefits accrued and outstanding under benefit plans, and the reimbursement of documented, unreimbursed expenses prior to the date of termination, Ms. Hess shall be entitled to receive severance benefits equal to six months of her then-current base salary, continued coverage under our benefit plans for a period of twelve months, payment of her pro-rated earned annual bonus, and the vesting of all unvested options or restricted stock awards will be accelerated. Ms. Hess has also agreed to non-competition and non-solicitation provisions during her term of employment and for one year thereafter.

Daniyel Erdberg Employment Agreement. On May 18, 2015, we entered into an employment agreement with Daniyel Erdberg (as amended, the “Erdberg Employment Agreement”), whereby Mr. Erdberg agreed to serve as our Chief Operating Officer for a period of two (2) years, subject to renewal for successive one-year terms, in consideration for an annual salary of \$140,000. On October 2, 2015, Mr. Erdberg resigned as Chief Operating Officer, and the Erdberg Employment Agreement was amended to reflect his appointment as President of the Company. The Erdberg Employment Agreement was subsequently further amended to increase Mr. Erdberg’s base salary to \$150,000 and to extend his term of employment to December 31, 2018. On August 3, 2017, the Erdberg Employment Agreement was amended to reflect an increase in Mr. Erdberg’s base salary to \$165,000. On December 4, 2018, the Erdberg Employment Agreement was amended to reflect an increase in Mr. Erdberg’s base salary to \$175,000 and to extend his term of employment to December 31, 2019. Under the Erdberg Employment Agreement, Mr. Erdberg is eligible for an annual cash bonus in an amount equal to up to one hundred fifty percent (150%) of his then-current base salary if we meet or exceed criteria adopted by the Compensation Committee of the Board of Directors. Mr. Erdberg shall also be eligible for grants of awards under stock option or other equity incentive plans of our Company as the Compensation Committee may from time to time determine and shall be entitled to participate in all benefits plans we provide to our executives. We shall reimburse Mr. Erdberg for all reasonable out-of-pocket expenses actually incurred or paid in the course of his employment. In the event Mr. Erdberg’s employment is terminated without Cause or by Mr. Erdberg with Good Reason (as such terms are defined in the Erdberg Employment Agreement), then in addition to receiving accrued but unpaid compensation and vacation pay through the end of the term of employment, benefits accrued and outstanding under benefit plans, and the reimbursement of documented, unreimbursed expenses prior to the date of termination, Mr. Erdberg shall be entitled to receive severance benefits equal to six months of his then-current base salary, continued coverage under our benefit plans for a period of twelve months after his termination date and payment of his pro-rated earned annual bonus. Mr. Erdberg has also agreed to non-competition and non-solicitation provisions during the term of his employment and for one year thereafter.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth outstanding equity awards to our named executive officers as of December 31, 2018.

Name	(a)	Option awards			Stock awards	
		Number of securities underlying unexercised options (#) exercisable (b)	Option exercise price (\$) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (1) (g)	Market value of shares of units of stock that have not vested (\$) (2) (h)
Jay Nussbaum						
Option Grant		2,000,000	0.50	8/3/2021		
Option Grant		900,000	0.50	11/9/2021		
Option Grant		2,350,000	0.65	9/26/2022		
Kendall Carpenter						
Option Grant		275,000	0.50	8/3/2021		
Option Grant		170,000	0.50	11/9/2021		
Option Grant		130,000	1.00	5/16/2022		
Option Grant		300,000	0.65	9/26/2022		
Felicia Hess						
Option Grant		1,200,000	0.50	8/3/2012		
Option Grant		300,000	0.50	11/9/2021		
Option Grant		1,000,000	0.65	9/26/2022		
Daniyel Erdberg						
Option Grant		1,140,000	0.50	8/3/2012		
Option Grant		200,000	0.50	11/9/2021		
Option Grant		1,000,000	0.65	9/26/2022		

(1) none

(2) none

Director Compensation Table for 2018

The following table sets forth director compensation for the fiscal year ended December 31, 2018 (excluding compensation to the Company's executive officers set forth in the summary compensation table above) paid by the Company.

Name	Fees Earned or Paid in Cash	Stock Awards ⁽¹⁾	Total (\$)
Robert Guerra ⁽²⁾	\$ 20,500	\$ 32,611	\$ 53,111
David Aguilar ⁽³⁾	\$ 26,500	\$ 120,073	\$ 146,573
Timothy Hoechst ⁽⁴⁾	\$ 26,500	\$ 46,096	\$ 72,596
LTG John E. Miller (Ret.) ⁽⁵⁾	\$ 38,500	\$ 46,009	\$ 84,509
Total:	<u>\$ 112,000</u>	<u>\$ 244,786</u>	<u>\$ 356,789</u>

(1) The amounts reflected for Stock Awards in the table above represent the dollar amount recognized for financial statement reporting purposes with respect to the fair value of securities granted in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that may be realized upon exercise.

(2) Mr. Guerra was appointed on March 28, 2018 for a term of two years and, pursuant to the terms of a Director Agreement, will be paid an annual fee of \$24,000 and was awarded Stock Options (the "Director Options") to purchase 100,000 shares of the Company's common stock with an exercise price of \$1.00 per share valued at \$38,393 on the date of the award, with \$21,739 expense recognized in 2018 and \$16,54 expense to be recognized. The Director Options vest as follows: 50,000 shares one year after the date of appointment so long as he is a member of the Board and 50,000 shares two years after the date of appointment so long as he is a member of the Board. Mr. Guerra's appointment will terminate, however, upon his resignation, removal or failure to be appointed or re-appointed by the Company's shareholders as a director of the Company as provided for in its bylaws or as provided for under Nevada law, or upon request of the Company's Chief Executive Officer.

On August 22, 2018, Mr. Guerra was awarded a Stock Option to purchase 25,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. One September 26, 2018, the August 22, 2018 Option was cancelled and reissued with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$10,872 expense in 2018 on the September 26, 2018 Option award.

(3) Mr. Aguilar was appointed on January 9, 2017 for a term of two years and, pursuant to the terms of a Director Agreement with Global Security Innovative Strategies, LLC ("GSIS"), will be paid an annual fee of \$24,000 and was awarded Stock Options (the "Director Options") to purchase 100,000 shares of the Company's common stock with an exercise price of \$2.90 per share. Mr. Aguilar has been reappointed for another two-year term through January 2, 2021 at the same annual fee of \$24,000. The Company recognized \$45,516 expense in 2018 related to the Director Options. The Director Options vest as follows: 50,000 shares one year after the date of appointment so long as he is a member of the Board and 50,000 shares two years after the date of appointment so long as he is a member of the Board. The Director Options became fully vested on January 2, 2019.

On August 22, 2018, Mr. Aguilar was awarded a Stock Option to purchase 150,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. One September 26, 2018, the August 22, 2018 Option was cancelled and reissued with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$65,232 expense in 2018 on the September 26, 2018 Option award.

On August 3, 2017, Mr. Aguilar was awarded a Stock Option to purchase 100,000 shares of the Company's common stock with an exercise price of \$1.00 per share and immediate vesting. On November 9, 2017, Mr. Aguilar was awarded a Stock Option to purchase 10,000 shares of the Company's common stock with an exercise price of \$1.00 per share and immediate vesting. On December 21, 2018 these two options were modified to an exercise price of \$0.50 per share. The Company recognized an additional \$8,208 and \$1,117 expense in 2018 on these August 3 and November 9, 2017 option awards, respectively.

- (4) Mr. Hoechst was appointed on December 13, 2017 for a term of two years and, pursuant to the terms of a Director Agreement, will be paid an annual fee of \$24,000 and was awarded Stock Options (the "Director Options") to purchase 100,000 shares of the Company's common stock with an exercise price of \$1.00 per share valued at \$49,733 on the date of award. The Company recognized \$35,224 expense in 2018 with \$12,778 expense to be recognized. The Director Options vest as follows: 50,000 shares one year after the date of appointment so long as he is a member of the Board and 50,000 shares two years after the date of appointment so long as he is a member of the Board. Mr. Hoechst's appointment will terminate, however, upon his resignation, removal or failure to be appointed or re-appointed by the Company's shareholders as a director of the Company as provided for in its bylaws or as provided for under Nevada law, or upon request of the Company's Chief Executive Officer.

On August 22, 2018, Mr. Hoechst was awarded a Stock Option to purchase 25,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. One September 26, 2018, the August 22, 2018 Option was cancelled and reissued with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$10,872 expense in 2018 on the September 26, 2018 Option award.

- (5) Mr. Miller was appointed on December 13, 2017 for a term of two years and, pursuant to the terms of a Director Agreement, will be paid an annual fee of \$36,000 and was awarded Stock Options (the "Director Options") to purchase 100,000 shares of the Company's common stock with an exercise price of \$1.00 per share valued at \$49,699 on the date of award. The Company recognized \$35,137 expense in 2018 with \$12,770 expense to be recognized. The Director Options vest as follows: 50,000 shares one year after the date of appointment so long as he is a member of the Board and 50,000 shares two years after the date of appointment so long as he is a member of the Board. Mr. Miller's appointment will terminate, however, upon his resignation, removal or failure to be appointed or re-appointed by the Company's shareholders as a director of the Company as provided for in its bylaws or as provided for under Nevada law, or upon request of the Company's Chief Executive Officer.

On August 22, 2018, Mr. Miller was awarded a Stock Option to purchase 25,000 shares of the Company's common stock with an exercise price of \$1.00 per share and a performance vesting condition. One September 26, 2018, the August 22, 2018 Option was cancelled and reissued with an exercise price of \$0.65 per share. On December 27, 2018, the option became fully vested. The Company recognized \$10,872 expense in 2018 on the September 26, 2018 Option award.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth the number of shares of and percent of the Company's common stock beneficially owned as of March 21, 2019, by all directors, our named executive officers, our directors and executive officers as a group, and persons or groups known by us to own beneficially 5% or more of our Common Stock.

The business address of each of the beneficial owners listed below is c/o Drone Aviation Holding Corp., 11651 Central Parkway #118, Jacksonville, Florida 32224.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class (1)
5% Shareholders		
Dr. Phillip Frost (2)	13,672,318	46.1%
Named Executive Officers and Directors		
Jay Nussbaum (3)	10,846,433	33.0%
Felicia Hess (4)	3,689,833	12.2%
Daniyel Erdberg (5)	3,343,833	11.1%
Robert Guerra (6)	175,000	* %
Timothy Hoechst (7)	130,000	* %
John E. Miller (8)	75,000	* %
David Aguilar (9)	410,000	1.5%
Executive Officers and Directors as a Group (9 persons)	19,896,432	63.5%

* less than 1%.

- (1) The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all shares of our capital stock outstanding on March 22, 2019. On March 22, 2019, there were 27,656,121 shares of our common stock outstanding. To calculate a stockholder's percentage of beneficial ownership, we include in the numerator and denominator the common stock outstanding and all shares of our common stock issuable to that person in the event of the exercise of outstanding options and other derivative securities owned by that person which are exercisable within 60 days of March 22, 2019. Common stock options and derivative securities held by other stockholders are disregarded in this calculation. Therefore, the denominator used in calculating beneficial ownership among our stockholders may differ. Unless we have indicated otherwise, each person named in the table has sole voting power and sole investment power for the shares listed opposite such person's name.
- (2) Represents 11,672,318 shares of common stock and 2,000,000 shares underlying vested warrants with an exercise price of \$0.50 which expire on August 3, 2022.
- (3) Represents 5,596,433 shares of common stock, 2,000,000 shares underlying vested options with an exercise price of \$0.50 which expire on August 3, 2021, 900,000 shares underlying vested options with an exercise price of \$0.50 which expire on November 9, 2021 and 2,350,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.
- (4) Represents 1,189,833 shares of common stock, 1,200,000 shares underlying vested options with an exercise price of \$0.50 which expire on August 3, 2021, 300,000 shares underlying vested options with an exercise price of \$0.50 which expire on November 9, 2021 and 1,000,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.
- (5) Represents 1,003,833 shares of common stock, 1,140,000 shares underlying vested options with an exercise price of \$0.50 which expire on August 3, 2021, 200,000 shares underlying vested options with an exercise price of \$0.50 which expire on November 9, 2021 and 1,000,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.
- (6) Represents 100,000 shares of common stock, 50,000 shares underlying vested options with an exercise price of \$1.00 which expire on March 31, 2022 and 25,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.
- (7) Represents 55,000 shares of common stock, 50,000 shares underlying vested options with an exercise price of \$1.00 which expire on December 13, 2021 and 25,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.
- (8) Represents, 50,000 shares underlying vested options with an exercise price of \$1.00 which expire on December 13, 2021 and 25,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.
- (9) Represents 50,000 shares of common stock, 50,000 shares underlying vested options with an exercise price of \$2.90 which expire on January 9, 2021, 100,000 shares underlying vested options with an exercise price of \$0.50 which expire on August 3, 2021, 10,000 shares underlying vested options with an exercise price of \$0.50 which expire on November 9, 2021 and 150,000 shares underlying vested options with an exercise price of \$0.65 which expire on September 26, 2022.

Equity Compensation Plan Information

The following table provides information as of December 31, 2018, regarding our compensation plans under which equity securities are authorized for issuance:

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	60,000	\$ 2.91	2,304,062
Equity compensation plans not approved by security holders	16,140,000	0.60	0
Total	16,200,000	\$ 0.61	2,304,062

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Certain Relationships and Related Transactions

We have no policy regarding entering into transactions with affiliated parties.

From time to time we engage in transactions with related parties. The following is a summary of the related party transactions during the fiscal years ended December 31, 2018 and 2017 requiring disclosure pursuant to Item 404 of Regulation S-K.

Series 2016 Convertible Notes

On September 29, 2016, the Company issued Convertible Promissory Notes Series 2016 due October 1, 2017 in the aggregate principal amount of \$3,000,000 in a private placement to the Chairman of the Board and the Chairman of the Strategic Advisory Board of the Company, both of whom are greater than 10% shareholders of the Company. The notes bear interest at a rate of six percent (6%) per annum. The Company may prepay the notes at any time without penalty.

On August 3, 2017, the Company entered into amendments with the owners and holders of the Series 2016 Convertible Notes to extend the maturity date for each of the notes to April 1, 2019 and revise the conversion price to mean \$1.00 per share subject to proportional adjustment in the event of stock splits, stock dividends and similar corporate events.

On December 21, 2018, the Company entered into amendments with the owners and holders of the Series 2016 Convertible Notes to reduce the conversion price under such notes to \$0.50 per share in exchange for the holders of such convertible notes agreement to convert the principal amount and accrued interest under such notes concurrently with the execution of the amendment. The Company issued 3,177,411 shares of common stock to Frost Gamma in full settlement of the \$1,500,000 principal balance and \$88,705 accrued interest. The Company issued 3,000,000 shares of common stock to Jay Nussbaum in full settlement of the \$1,500,000 principal balance and settled \$88,212 accrued interest in cash.

Series 2017 Convertible Note

On August 3, 2017, the Company issued a Secured Convertible Promissory Note Series 2017 due August 2, 2018 in the aggregate principal amount of \$2,000,000 (the "Series 2017 Convertible Note") in a private placement to Frost Nevada Investments Trust ("Frost Nevada"). Frost Nevada is a trust that is controlled by Dr. Frost, a substantial shareholder of the Company. The note evidences a revolving line of credit with advances that may be requested by the Company until the maturity date of August 2, 2018 so long as no event of default exists under the loan. As of December 31, 2017, we have borrowed a total of \$1,000,000 under the Series 2017 Secured Convertible Note leaving availability of \$1,000,000 under such note. Accrued interest of \$5,625 has been recognized as of December 31, 2017.

During 2018, the Company borrowed an additional \$1,000,000 on the Series 2017 Convertible Note bringing the total amount of principal to \$2,000,000. On December 21, 2018, the Company entered into an amendment with Frost Nevada to reduce the conversion price under such notes to \$0.50 per share in exchange for Frost Nevada's agreement to convert the principal amount and accrued interest under such notes concurrently with the execution of the amendment. The Company issued 4,030,740 shares of common stock to Frost Nevada in full settlement of the \$2,000,000 principal balance and \$15,370 accrued interest.

Global Security Innovative Strategies, LLC

On November 10, 2017, the Company and Global Security Innovative Strategies, LLC (“GSIS”), a related party, entered in an agreement whereby GSIS will provide business development support and general consulting services for sales opportunities with U.S. government agencies and other identified prospects and consulting support services for the Company’s role and activities as part of the Security Center of Excellence in Orlando, Florida. The agreement is for a period of six months beginning on November 1, 2017. The Company agreed to pay GSIS a fee of \$10,000 per month and will evaluate the fee after 90 days. On September 26, 2018, the parties amended the agreement to extend the period of service through September 2019 with monthly auto renew extensions thereafter. The Company also agreed to issue 100,000 options to purchase Company stock which were immediately vested, had a strike price of \$1.00 and terminate on September 26, 2022. The Company agreed to pay the expenses of GSIS incurred in connection with the performance of its duties under the agreement. Either party may terminate or renew the agreement at any time, for any reason or no reason, upon at least 30 days’ notice to the other party. David Aguilar, a member of the Company’s board of directors, is a principal at GSIS.

Kevin Hess Agreements

On October 2, 2015, we entered into the K. Hess Employment Agreement, whereby Mr. Hess agreed to serve as our Chief Executive Officer for a period of two (2) years, subject to renewal for successive one-year terms, in consideration for an annual salary of \$200,000. On April 27, 2016, the Company and Mr. Hess amended the K. Hess Employment Agreement to reflect Mr. Hess’s appointment as Chief Technology Officer and extend the term of employment until May 18, 2018, which was further extended to December 31, 2018 pursuant to a subsequent amendment to the K. Hess Employment Agreement. On December 4, 2018, the K. Hess Employment Agreement was amended to reflect an increase in Mr. Hess’ base salary to \$225,000 and to extend his term of employment to December 31, 2019. Additionally, Mr. Hess is eligible for an annual cash bonus in an amount equal to up to one hundred fifty percent (150%) of his then-current base salary if we meet or exceed criteria adopted by the Compensation Committee of the Board of Directors. Mr. Hess shall also be eligible for grants of awards under stock option or other equity incentive plans of our Company as our Compensation Committee may from time to time determine and shall be entitled to participate in all benefits plans we provide to our senior executives. We shall reimburse Mr. Hess for all reasonable out-of-pocket expenses actually incurred or paid by Mr. Hess in the course of his employment. In the event Mr. Hess’ employment is terminated without Cause or by Mr. Hess with Good Reason (as such terms are defined in the K. Hess Employment Agreement), Mr. Hess shall be entitled to receive his accrued and unpaid base salary through the date of termination, continued coverage under our benefit plans for a period of one months and reimbursement of documented, unreimbursed expenses incurred prior to the date of termination. Mr. Hess has also agreed to non-competition and non-solicitation provisions effective during the term of his employment and for one year thereafter.

On March 21, 2019, we entered into a Voluntary Separation Agreement with Mr. Hess. Pursuant to the terms of Voluntary Separation Agreement, the parties agreed that Mr. Hess would cease to be an employee of the Company, effective March 31, 2019. We also entered into an Independent Contractor Agreement on March 21, 2019 pursuant to which Mr. Hess will provide certain CTO and other services to the Company through Cognitive Carbon Corporation. Pursuant to the terms of the Independent Contractor Agreement, we agreed to engage, effective March 31, 2019, Cognitive Carbon Corporation, a company wholly owned by Felicia Hess, Mr. Hess’ spouse and our Chief Quality Officer, to provide certain CTO services and sales and marketing services. In exchange for provision of such services, we agreed to provide Cognitive Carbon Corporation a monthly fee of \$19,750. In addition, Cognitive Carbon Corporation may receive a bonus up to a maximum amount of \$300,000 based on the criteria set forth in the Independent Contractor Agreement. Mr. Hess will perform the CTO and other services on behalf of Cognitive Carbon Corporation.

The Independent Contractor Agreement has a term of one year, with automatic 12-month renewals thereafter unless the Company notifies its intent not to renew within 30 days of renewal. Either party may terminate the Independent Contractor Agreement upon written notice of material breach by the other party that is not cured within 15 days from the date of notice.

Director Independence

Our securities are not quoted on an exchange that has requirements that a majority of our Board of Directors be independent, and we are not currently otherwise subject to any law, rule or regulation requiring that all or any portion of our Board of Directors include “independent” directors. However, our Board of Directors has determined in its business judgment that General John Miller, David Aguilar, Robert Guerra and Timothy Hoechst are independent within the meaning of the OTCQX Rules for U.S. Companies, the Sarbanes-Oxley Act of 2002, as amended, and related SEC rules.

Item 14. Principal Accounting Fees and Services.

The following table shows the fees that were billed for the audit and other services provided by our independent registered public accounting firm for the fiscal years ended December 31, 2018 and 2017.

	2018	2017
Audit Fees	\$ 63,000	\$ 61,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	\$ 63,000	\$ 61,000

Audit Fees

Audit fees consist of fees billed for services associated with the audit of our annual financial statements, review of the Company's financial statements included in Quarterly Reports on Form 10-Q, and services normally provided by the accounting firm for statutory and regulatory filings or engagements.

Audit-Related Fees

We did not incur any fees payable to our independent auditors for assurance and related services reasonably related to the performance of the audit or review of our financial statements during the fiscal years ended December 31, 2018 and 2017.

Tax Fees

We did not incur any fees payable to our independent auditors for professional services for tax compliance, tax advice, and tax planning during the fiscal years ended December 31, 2018 and 2017.

All Other Fees

We did not incur any fees payable to our independent auditors during the fiscal years ended December 31, 2018 and 2017 for products or services provided by our independent registered public accounting firm.

The Audit Committee pre-approves all auditing services and all permitted non-auditing services (including the fees and terms thereof) to be performed by our independent registered public accounting firm.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as a part of this report or incorporated herein by reference:

- (1) Our Consolidated Financial Statements and Notes thereto begin on page F-1 of this Annual Report immediately after the signature page.

Index to Financial Statements:

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets for the Years Ended December 31, 2017 and 2018	F-2
Consolidated Statements of Operations for the Years Ended December 31, 2017 and 2018	F-3
Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2017 and 2018	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2018	F-5
Notes to Consolidated Financial Statements	F-6

- (2) Financial Statement Schedules: All schedules have been omitted because the required information is included in the Consolidated Financial Statements or the Notes thereto, or because it is not required.

- (3) Exhibits:

Exhibit Number	Exhibit Description	Incorporation by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
2.1	Agreement and Plan of Merger, dated April 30, 2014, between Drone Aviation Holding Corp. and MacroSolve, Inc.	8-K	5/5/2014	2.1	333-150332	
2.2	Plan of Merger, effective March 26, 2015, between Drone Aviation Holding Corp. and Drone Aviation Corp.	10-K	3/31/2015	10.14	333-150332	
2.3	Asset Purchase Agreement, dated July 20, 2015, between Drone AFS Corp. Drone Aviation Holding Corp., Adaptive Flight, Inc., and the shareholders of Adaptive Flight, Inc.	8-K	7/21/2015	10.1	333-150332	
3.1	Articles of Incorporation of Drone Aviation Holding Corp., dated April 17, 2014	8-K	5/5/2014	3.1	333-150332	
3.2	Certificate of Amendment to Articles of Incorporation of Drone Aviation Holding Corp., dated October 29, 2015	8-K	10/30/2015	3.1	333-150332	
3.3	Bylaws of Drone Aviation Holding Corp.	8-K	5/5/2014	3.6	333-150332	
3.4	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock	8-K	5/5/2014	3.2	333-105332	
3.5	Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock	8-K	5/5/2014	3.3	333-105332	
3.6	Certificate of Designation of Preferences, Rights and Limitations of Series B-1 Convertible Preferred Stock	8-K	5/5/2014	3.4	333-105332	
3.7	Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock	8-K	5/5/2014	3.5	333-105332	
3.8	Certificate of Designation of Preferences, Rights and Limitations of Series D Convertible Preferred Stock	8-K	6/5/2014	3.1	333-105332	
3.9	Certificate of Designation of Preferences, Rights and Limitations of Series E Convertible Preferred Stock	8-K	6/5/2014	3.2	333-105332	
3.10	Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitations of Series E Convertible Preferred Stock	8-K	6/3/2015	3.3	333-105332	
3.11	Certificate of Designation of Preferences, Rights and Limitations of Series F Convertible Preferred Stock	8-K	8/28/2014	3.1	333-105332	
3.12	Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitations of Series F Convertible Preferred Stock	8-K	6/3/2015	3.4	333-105332	
3.13	Certificate of Designation of Preferences, Rights and Limitations of Series G Convertible Preferred Stock	8-K	6/3/2015	3.1	333-105332	
3.14	Certificate of Correction to the Certificate of Designation of Preferences, rights and Limitations of Series G Convertible Preferred Stock	8-K	6/3/2015	3.2	333-105332	
3.15	Form of Certificate of Withdrawal to be filed with Nevada Secretary of State.	8-K	8/24/2018	3.1		

Exhibit Number	Exhibit Description	Incorporation by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
4.1	Form of Convertible Promissory Note Series 2016 due October 1, 2017	8-K	9/30/2016	4.1	333-105332	
4.2	Form of Amendment to Convertible Promissory Note Series 2016	10-Q	8/4/2017	4.1(a)	333-150332	
4.3	Form of November 2017 Amendment to Convertible Promissory Note Series 2016	10-Q	11/13/2017	4.1(b)	333-150332	
4.4	Form of March 2018 Amendment to Convertible Promissory Note Series 2016	10-K	3/23/2018	4.1(c)	333-150332	
4.5	Form of Secured Convertible Promissory Note Series 2017-08 due August 2, 2018	10-Q	8/4/2017	4.2	333-150332	
10.1	Form of Indemnification Agreement for Directors and Officers	8-K	6/5/2014	10.4	333-105332	
10.2	Independent Contractor Agreement, dated July 29, 2013, by and among US Technik, Inc., Lighter Than Air Systems Corp., and World Surveillance Group, Inc.	8-K	6/5/2014	10.9	333-105332	
10.3	Form of Independent Contractor Agreement for members of the Strategic Advisory Board of Drone Aviation Holding Corp.	8-K	8/28/2014	10.2	333-10532	
10.4*	Employment Agreement, dated May 18, 2015, between Drone Aviation Holding Corp. and Daniyel Erdberg	10-Q	5/15/2015	10.17	333-150332	
10.4(a)*	(a) Amendment No. 1 to Employment Agreement, dated October 2, 2015, between Drone Aviation Holding Corp. and Daniyel Erdberg	8-K	10/7/2015	10.2	333-150332	
10.4(b)*	(b) Amendment No. 2 to Employment Agreement, dated April 27, 2016, between Drone Aviation Holding Corp., and Daniyel Erdberg	10-Q	4/29/2016	10.4	333-150332	
10.4(c)*	(c) Amendment No. 3 to Employment Agreement, dated September 26, 2016, by and between Drone Aviation Holding Corp. and Daniyel Erdberg	8-K	9/30/2016	10.5	333-150332	
10.4(d)*	(d) Amendment No. 4 to Employment Agreement, dated August 3, 2017, between Drone Aviation Holding Corp., and Daniyel Erdberg	10-Q	8/4/2017	10.4(d)	333-150332	
10.5*	Employment Agreement, dated May 18, 2015, between Drone Aviation Holding Corp. and Felicia A. Hess	10-Q	5/15/2015	10.15	333-150332	
10.5(a)*	(a) Amendment No. 1 to Employment Agreement, dated October 2, 2015, between Drone Aviation Holding Corp. and Felicia Hess	8-K	10/7/2015	10.1	333-150332	
10.5(a)*	(b) Amendment No. 2 to Employment Agreement, dated April 27, 2016, between Drone Aviation Holding Corp. and Felicia Hess	10-Q	4/29/2016	10.5	333-150332	
10.5(b)*	(c) Amendment No. 3 to Employment Agreement, dated September 26, 2016, by and between Drone Aviation Holding Corp. and Felicia Hess	8-K	9/30/2016	10.3	333-150332	
10.5(c)*	(d) Amendment No. 4 to Employment Agreement, dated August 3, 2017, by and between Drone Aviation Holding Corp. and Felicia Hess	10-Q	8/4/2017	10.5(d)	333-150332	

Exhibit Number	Exhibit Description	Incorporation by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
10.6*	Employment Agreement, dated May 18, 2015, between Drone Aviation Holding Corp. and Kendall Carpenter	10-Q	5/15/2015	10.16	333-150332	
10.6(a)*	(a) Amendment No. 1 to Employment Agreement, dated April 27, 2016, between Drone Aviation Holding Corp. and Kendall Carpenter	10-Q	4/29/2016	10.3	333-150332	
10.6(b)*	(b) Amendment No. 2 to Employment Agreement, dated September 26, 2016, by and between Drone Aviation Holding Corp. and Kendall Carpenter	8-K	9/30/2016	10.6	333-150332	
10.6(c)*	(c) Amendment No. 3 to Employment Agreement, dated August 3, 2017, by and between Drone Aviation Holding Corp. and Kendall Carpenter	10-Q	8/4/2017	10.6(c)	333-150332	
10.7*	Director Agreement, dated June 4, 2015, between Drone Aviation Holding Corp. and Jay Nussbaum	8-K	6/5/2015	10.1	333-150332	
10.8	Intellectual Property Assignment Agreement, dated July 20, 2015, between Adaptive Flight, Inc., and Drone AFS Corp.	8-K	7/21/2015	10.5	333-150332	
10.9	Form of Non-Exclusive, Perpetual Intellectual Property and Patent License Agreement of Drone Aviation Holding Corp., dated July 20, 2015	8-K	7/21/2015	10.6	333-150332	
10.10*	Drone Aviation Holding Corp. 2015 Equity Incentive Plan	8-K	9/11/2015	99.1	333-150332	
10.11*	Amended and Restated Employment Agreement, dated October 2, 2015, between Drone Aviation Holding Corp. and Kevin Hess	8-K	10/7/2015	10.3	333-150332	
10.11(a)*	(a) Amendment No. 2 [sic] to Employment Agreement, dated April 27, 2016, between Drone Aviation Holding Corp. and Kevin Hess	10-Q	4/29/2016	10.1	333-150332	
10.11(b)*	(b) Amendment No. 3 [sic] to Employment Agreement, dated September 26, 2016, between Drone Aviation Holding Corp. and Kevin Hess	8-K	9/30/2016	10.4	333-150332	
10.12	Form of Drone Aviation Holding Corp. Warrant to purchase Common Stock issued to Dougherty & Company, LLC, as Placement Agent	8-K	11/23/2015	4.1	333-150332	
10.13	Form of Drone Aviation Holding Corp. Common Stock Purchase Agreement for Private Offering Under Section 4(a)(2) of the Securities Act of 1933 and Rule 506(b)	8-K	11/23/2015	10.1	333-150332	
10.14	Form of Preferred Stock Conversion and Lockup Agreement for Series A Convertible Preferred Stock	8-K	11/23/2015	10.2	333-150332	
10.15	Form of Preferred Stock Conversion and Lockup Agreement for Series B Convertible Preferred Stock	8-K	11/23/2015	10.3	333-150332	
10.16	Form of Exchange Agreement for Series B-1 Convertible Preferred Stock	8-K	11/23/2015	10.9	333-150332	
10.17	Form of Preferred Stock Conversion and Lockup Agreement for Series C Convertible Preferred Stock	8-K	11/23/2015	10.4	333-150332	
10.18	Form of Preferred Stock Conversion and Lockup Agreement for Series D Convertible Preferred Stock	8-K	11/23/2015	10.5	333-150332	
10.19	Form of Preferred Stock Conversion Agreement for Series E Convertible Preferred Stock	8-K	11/23/2015	10.6	333-150332	
10.20	Form of Preferred Stock Conversion Agreement for Series F Convertible Preferred Stock	8-K	11/23/2015	10.7	333-150332	

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	Filing Date	Exhibit Number	SEC File No.	
10.21	Form of Preferred Stock Conversion Agreement for Series G Convertible Preferred Stock	8-K	11/23/2015	10.8	333-150332	
10.22*	Employment Agreement, dated April 27, 2016, between Drone Aviation Holding Corp. and Jay H. Nussbaum	10-Q	4/29/2016	10.2	333-150332	
10.22(a)*	(a) Amendment No. 1 to Employment Agreement, dated September 26, 2016, by and between Drone Aviation Holding Corp. and Jay H. Nussbaum	8-K	9/30/2016	10.2	333-150332	
10.22(b)*	(b) Amendment No. 2 to Employment Agreement, dated August 3, 2017, by and between Drone Aviation Holding Corp. and Jay H. Nussbaum	10-Q	8/4/2017	10.22(b)	333-150332	
10.23*	Form of Drone Aviation Holding Corp. Restricted Stock Agreement (Non-Assignable) (Effective April 27, 2016)	10-Q	7/29/2016	10.7	333-150332	
10.24*	Form of Drone Aviation Holding Corp. Restrictive Stock Agreement (Non-Assignable)	8-K	9/30/2016	10.7	333-150332	
10.25	Form of Subscription Agreement for Convertible Promissory Notes Series 2016 due October 1, 2017	8-K	9/30/2016	10.1	333-150332	
10.26	Offer Letter between Drone Aviation Holding Corp. and David V. Aguilar, accepted January 9, 2017	8-K	1/12/2017	10.1	333-150332	
10.27	Director Agreement, dated January 9, 2017, between Drone Aviation Holding Corp. and David V. Aguilar	8-K	1/12/2017	10.2	333-150332	
10.28*	Form of Drone Aviation Holding Corp. Nonqualified Stock Option Agreement	8-K	1/12/2017	10.3	333-150332	
10.29	Form of Promissory Note and Security Agreement issued by Drone Aviation Holding Corp. to City National Bank of Florida dated August 2, 2017	10-Q	8/4/2017	10.29	333-150332	
10.30	Form of Guarantee issued by Jay Nussbaum to City National Bank of Florida dated August 2, 2017	10-Q	8/4/2017	10.30	333-150332	
10.31	Indemnification Agreement between Drone Aviation Holding Corp. and Jay H. Nussbaum	10-Q	8/4/2017	10.31	333-150332	
10.32*	Form of Drone Aviation Holding Corp. Amendment to Restricted Stock Agreement dated August 3, 2017	10-Q	8/4/2017	10.32	333-150332	
10.33*	Form of Amendment No. 2 to Independent Contractor Agreement dated August 3, 2017	10-Q	8/4/2017	10.33	333-150332	
10.34*	Warrant issued by Drone Aviation Holding Corp. to Dr. Phillip Frost dated August 3, 2017	10-Q	8/4/2017	10.34	333-150332	
10.35	Consulting Agreement between Drone Aviation Holding Corp. and Global Security Innovative Strategies, LLC dated November 10, 2017	10-Q	11/13/2017	10.35	333-150332	
10.36*	Form of Offer Letter between Drone Aviation Holding Corp. and Robert J. Guerra.	8-K	4/2/2018	10.1	333-150332	
10.37*	Form of Second Amendment to Restricted Stock Agreement	8-K	4/2/2018	10.4	333-150332	
10.38	Amendment to promissory between Drone Aviation Holding Corp. and City National Bank of Florida dated September 26, 2018.	8-K	9/28/2018	10.1	333-150332	
10.39	Amendment to Secured Convertible Promissory Note issued by Drone Aviation Holding Corp. to Frost Nevada Investment Trust dated September 26, 2018.	8-K	9/28/2018	10.2	333-150332	
10.40	Amendment No. 1 between Drone Aviation Holding Corp. and Global Security & Innovative Strategies, LLC dated September 26, 2018.	8-K	9/28/2018	10.4	333-150332	

Exhibit Number	Exhibit Description	Incorporation by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
10.41	Form of Common Stock Purchase Agreement.	10-Q	10/26/2018	10.1	333-150332	
10.42	Form of Amendment No. 3 to Independent Contractor Agreement dated August 3, 2017.	10-Q	10/26/2018	10.2	333-150332	
10.43	Form of Promissory Note between Drone Aviation Holding Corp and Jay Nussbaum dated October 25, 2018.	10-Q	10/26/2018	10.26	333-150332	
10.44*	Amendment No. 5 to Employment Agreement with Daniyel Erdberg with Drone Aviation Holding Corp. dated December 4, 2018.	8-K	12/7/2018	10.1	333-150332	
10.45*	Amendment No. 4 to Employment Agreement with Kevin Hess with Drone Aviation Holding Corp. dated December 4, 2018.	8-K	12/7/2018	10.2	333-150332	
10.46*	Amendment No. 5 to Employment Agreement with Felicia Hess with Drone Aviation Holding Corp. dated December 4, 2018.	8-K	12/7/2018	10.3	333-150332	
10.47*	Amendment No. 3 to Employment Agreement with Jay H. Nussbaum with Drone Aviation Holding Corp. dated December 4, 2018.	8-K	12/7/2018	10.4	333-150332	
10.48*	Amendment No. 4 to Employment Agreement with Kendall Carpenter with Drone Aviation Holding Corp. dated December 4, 2018.	8-K	12/7/2018	10.5	333-150332	
10.49	Form of Amended and Restated Stock Purchase Agreement.	8-K	12/27/2018	10.1	333-150332	
10.50	Form of Amendment to Secured Convertible Promissory Note Series 2016.	8-K	12/27/2018	10.3a	333-150332	
10.51	Form of Amendment to Secured Convertible Promissory Note Series 2017-18.	8-K	12/27/2018	10.3b	333-150332	
10.52	Amendment dated December 21, 2018 to Warrant issued by Drone Aviation Holding Corp. to Frost Nevada Investment Trust dated August 3, 2018.	8-K	12/27/2018	10.4	333-150332	
10.53	Form of Amendment to Drone Aviation Holding Corp. Nonqualified Stock Option Agreement.	8-K	12/27/2018	10.5	333-150332	
10.54*	Voluntary Separation Agreement between Drone Aviation Holding Corp. and Kevin Hess entered into on March 21, 2019.					X
10.55*	Independent Contractor Agreement between Drone Aviation Holding Corp. and Cognitive Carbon Corporation entered into on March 21, 2019.					X
21	List of Subsidiaries of Drone Aviation Holding Corp.	–	–	–	–	X
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	–	–	–	–	X
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	–	–	–	–	X
32**	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	–	–	–	–	X
101 INS	XBRL Instance Document	–	–	–	–	X
101 SCH	XBRL Taxonomy Extension Schema Document	–	–	–	–	X
101 CAL	XBRL Taxonomy Calculation Linkbase Document	–	–	–	–	X
101 LAB	XBRL Taxonomy Labels Linkbase Document	–	–	–	–	X
101 PRE	XBRL Taxonomy Presentation Linkbase Document	–	–	–	–	X
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document	–	–	–	–	X

* Indicates management contract or compensatory plan or arrangement.

** Furnished herewith

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DRONE AVIATION HOLDING CORP.

Date: March 22, 2019

By: /s/ JAY H. NUSSBAUM
Jay H. Nussbaum
Chief Executive Officer

POWER OF ATTORNEY

The registrant and each person whose signature appears below hereby appoint Jay H. Nussbaum and Kendall Carpenter, and each of them, as attorneys-in-fact with full power of substitution, severally, to execute in the name and on behalf of the registrant and each such person, individually and in each capacity stated below, one or more amendments to the annual report which amendments may make such changes in the report as the attorney-in-fact acting deems appropriate and to file any such amendment to the report with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

<u>Name</u>	<u>Position</u>	<u>Date</u>
<u>/s/ JAY H. NUSSBAUM</u> Jay H. Nussbaum	Chief Executive Officer and Director (Principal Executive Officer)	March 22, 2019
<u>/s/ KENDALL CARPENTER</u> Kendall Carpenter	Chief Financial Officer (Principal Financial and Accounting Officer)	March 22, 2019
<u>/s/ ROBERT GUERRA</u> Robert Guerra	Director	March 22, 2019
<u>/s/ DAVID AGUILAR</u> David Aguilar	Director	March 22, 2019
<u>/s/ JOHN E. MILLER</u> John E. Miller	Director	March 22, 2019
<u>/s/ TIMOTHY HOECHST</u> Timothy Hoechst	Director	March 22, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and board of directors of
Drone Aviation Holding Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Drone Aviation Holding Corp. and its subsidiaries (collectively, the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ *MaloneBailey, LLP*

www.malonebailey.com

We have served as the Company's auditor since 2013.

Houston, Texas

March 22, 2019

**DRONE AVIATION HOLDING CORP.
CONSOLIDATED BALANCE SHEETS**

	<u>12/31/2018</u>	<u>12/31/2017</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,282,365	\$ 615,375
Accounts receivable - trade	18,000	110,065
Inventory, net	307,925	991,697
Prepaid expenses and deposits	89,613	103,008
Total current assets	<u>2,697,903</u>	<u>1,820,145</u>
PROPERTY AND EQUIPMENT, at cost:		
Less - accumulated depreciation	(123,725)	(97,507)
Net property and equipment	<u>53,230</u>	<u>155,937</u>
OTHER ASSETS:		
Goodwill	99,799	99,799
Intangible assets, net	705,667	997,667
Total other assets	<u>805,466</u>	<u>1,097,466</u>
TOTAL ASSETS	<u>\$ 3,556,599</u>	<u>\$ 3,073,548</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade and accrued liabilities	\$ 485,024	\$ 205,359
Accounts payable due to related party	-	171,981
Bank Line of Credit	2,000,000	1,000,000
Related party convertible note payable	-	1,000,000
Total current liabilities	<u>2,485,024</u>	<u>2,377,340</u>
LONG TERM LIABILITIES:		
Related party convertible notes payable	-	3,000,000
TOTAL LIABILITIES	<u>\$ 2,485,024</u>	<u>\$ 5,377,340</u>
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, \$.0001 par value; authorized 300,000,000 shares; 23,640,621 and 9,182,470 shares issued and outstanding, at December 31, 2018 and December 31, 2017, respectively	2,364	918
Additional paid-in capital	39,541,301	27,692,067
Accumulated Deficit	(38,472,090)	(29,996,777)
Total stockholders' equity (deficit)	<u>1,071,575</u>	<u>(2,303,792)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 3,556,599</u>	<u>\$ 3,073,548</u>

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

DRONE AVIATION HOLDING CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,

	<u>2018</u>	<u>2017</u>
Revenues	\$ 2,722,713	\$ 562,078
Cost of goods sold	<u>2,214,166</u>	<u>338,579</u>
Gross profit	<u>508,547</u>	<u>223,499</u>
General and administrative expense	<u>8,639,364</u>	<u>10,069,841</u>
Loss from operations	<u>(8,130,817)</u>	<u>(9,846,342)</u>
Other income (expense)		
Loss on debt extinguishment	-	(681,988)
Derivative Gain	-	1,831,635
Interest expense	<u>(344,496)</u>	<u>(1,627,297)</u>
Total other expense	<u>(344,496)</u>	<u>(477,650)</u>
NET LOSS	<u>(8,475,313)</u>	<u>(10,323,992)</u>
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	<u>\$ (8,475,313)</u>	<u>\$ (10,323,992)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>9,547,077</u>	<u>8,956,365</u>
Basic and diluted net loss per share	<u>\$ (0.89)</u>	<u>\$ (1.15)</u>

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

DRONE AVIATION HOLDING CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Years Ended December 31, 2018 and 2017

	Common Stock		Preferred Stock Ser A		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance - December 31, 2016	8,682,220	\$ 868	101,100	\$ 10	\$ 21,089,301	\$ (19,672,785)	\$ 1,417,394
Net Loss						(10,323,992)	(10,323,992)
Stock Based Comp. - Employee Shares - Vesting for PY share issuance					1,071,323		1,071,323
Stock Based Compensation - Non- employee Shares	250,000	25			195,720		195,745
Stock Based Compensation - Options and Warrants					6,824,334		6,824,334
Conversion of Series A preferred stock to common stock	250,250	25	(101,100)	(10)	(15)		-
Stock Based Compensation - reverse amortization, vesting deemed improbable					(1,488,596)		(1,488,596)
Balance - December 31, 2017	9,182,470	\$ 918	-	\$ -	\$ 27,692,067	\$ (29,996,777)	\$ (2,303,792)
Net Loss						(8,475,313)	(8,475,313)
Stock Based Comp. - Employee Shares - Vesting for PY share issuance					944,300		944,300
Conversion of 2016 related party convertible notes and accrued interest	6,177,411	618			3,088,087		3,088,705
Conversion of 2017 related party convertible note and accrued interest	4,030,740	403			2,014,967		2,015,370
Stock Based Compensation - Non- employee Shares	250,000	25			43,308		43,333
Stock Based Compensation - Options and Warrants					3,758,972		3,758,972
Common stock issued for cash	4,000,000	400			1,999,600		2,000,000
Balance - December 31, 2018	23,640,621	\$ 2,364	-	\$ -	\$ 39,541,301	\$ (38,472,090)	\$ 1,071,575

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

DRONE AVIATION HOLDING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES:		
Net loss	\$ (8,475,313)	\$ (10,323,992)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization expense of debt discount	-	1,409,790
Gain on derivative liability	-	(1,831,635)
Loss on debt extinguishment	-	681,988
Depreciation	37,984	36,723
Loss on inventory obsolescence	565,406	6,366
Loss on disposal of property and equipment	10,002	-
Amortization expense of intangible assets	292,000	292,000
Stock based compensation	4,746,605	6,602,806
Changes in current assets and liabilities:		
Accounts receivable	92,065	283,935
Inventory	118,366	(538,178)
Prepaid expenses and other current assets	13,395	17,606
Accounts payable and accrued expense	279,665	(88,563)
Due from related party	(67,906)	125,132
Net cash used in operating activities	<u>(2,387,731)</u>	<u>(3,326,022)</u>
INVESTING ACTIVITIES:		
Cash received from sale of fixed assets	60,000	-
Cash paid on fixed assets	(5,279)	(73,817)
Net cash provided by (used in) investing activities	<u>54,721</u>	<u>(73,817)</u>
FINANCING ACTIVITIES:		
Proceeds from related party convertible note payable	1,000,000	1,000,000
Proceeds from bank line of credit	1,000,000	1,000,000
Proceeds from related party promissory note	100,000	-
Repayment of related party promissory note	(100,000)	-
Proceeds from sale of common stock	2,000,000	-
Net cash provided by financing activities	<u>4,000,000</u>	<u>2,000,000</u>
NET INCREASE (DECREASE) IN CASH	1,666,990	(1,399,839)
CASH, beginning of period	615,375	2,015,214
CASH, end of period	<u>\$ 2,282,365</u>	<u>\$ 615,375</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year ended December 31:		
Interest	<u>\$ 407,096</u>	<u>\$ 86,750</u>
Noncash investing and financing activities for the year ended December 31:		
Conversion of 2016 related party convertible notes payable	\$ 3,088,705	\$ -
Conversion of 2017 related party convertible note payable	\$ 2,015,370	\$ -
Conversion of Series A preferred stock to common stock	<u>\$ -</u>	<u>\$ 25</u>

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

Drone Aviation Holding Corp.
Notes to Consolidated Financial Statements

For the Years ended December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business:

Drone Aviation Holding Corp. (“Drone”, “we”, “our”, or “Company”) develops and manufactures cost-effective, compact and rapidly deployable aerial platforms including lighter-than-air aerostats, tethered drones and land-based intelligence, surveillance and reconnaissance (“ISR”) solutions designed to provide government and commercial customers with enhanced surveillance and communication capabilities. Utilizing a proprietary tether system, the Company's products are designed to provide prolonged operational duration capabilities combined with improved reliability, uniquely fulfilling critical requirements in military, law enforcement and commercial and industrial applications.

Basis of Presentation:

The accompanying financial statements of the Company were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Principle of Consolidation:

Our consolidated financial statements as of December 31, 2018 and 2017 include the accounts of Drone Aviation Holding Corp. and its subsidiaries: Drone AFS Corp. and Lighter Than Air Systems Corp (“LTAS”).

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and trade receivables. The Company places its cash with high credit quality financial institutions. At times such cash may be in excess of the FDIC limit of \$250,000 per depositor. With respect to trade receivables, the Company routinely assesses the financial strength of its customers and, as a consequence, believes that the receivable credit risk exposure is limited.

Cash Equivalents:

Cash equivalents are represented by operating accounts or money market accounts maintained with insured financial institutions, including all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents. The Company had no cash equivalents as of December 31, 2018 and 2017.

Accounts Receivable and Credit Policies:

Accounts receivable-trade consists of amounts due from the sale of tethered aerostats, accessories, spare parts customization and refurbishment of aerostats. Such accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 to 45 days of receipt of the invoice. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts based on historical collection experience and a review of the current status of trade accounts receivable. At December 31, 2018 and 2017, the Company characterized \$0 and \$0 as uncollectible, respectively.

Inventories

Inventories are stated at the lower of cost or net realizable value, using the first-in first-out method. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our supplies, and the estimated utility of our inventory. If the review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to cost of goods sold.

Property and Equipment:

Property and equipment is recorded at cost when acquired. Depreciation is provided principally on the straight-line method over the estimated useful lives of the related assets, which is 3-7 years for equipment, furniture and fixtures, hardware and software. Property and equipment consists of the following at December 31, 2018 and 2017:

	2018	2017
Shop Machinery and equipment	\$ 87,534	\$ 87,704
Computers and electronics	32,093	35,270
Office furniture and fixtures	37,814	37,814
Vehicle	-	73,142
Leasehold improvements	19,514	19,514
	<u>176,955</u>	<u>253,444</u>
Less - accumulated depreciation	<u>(123,725)</u>	<u>(97,507)</u>
	<u>\$ 53,230</u>	<u>\$ 155,937</u>

Expenditures for maintenance and repairs are charged to expense as incurred, whereas expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized.

During the year ended December 31, 2018, the Company invested \$5,279 in shop machinery and equipment and computers. During the same period, the Company sold a vehicle for \$60,000 and wrote off several items of abandoned equipment resulting in a \$10,002 loss on disposal of assets. During the year ended December 31, 2017, the Company purchased a vehicle for \$73,142 and shop equipment for \$675.

The Company recognized \$37,984 and \$36,723 of depreciation expense for the year ended December 31, 2018 and 2017, respectively.

Long-Lived Assets & Goodwill:

The Company accounts for long-lived assets in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10-35, "Impairment or Disposal of Long-lived Assets." This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The Company accounts for goodwill and intangible assets in accordance with ASC 350 "Intangibles Goodwill and Other". ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. The Company performed impairment analysis using the qualitative analysis under ASC 350-20 and noted no impairment issues for 2018 and 2017.

Derivative Financial Instruments:

The Company evaluates the embedded conversion feature within its convertible debt instruments under ASC 815-15 and ASC 815-40 to determine if the conversion feature meets the definition of a liability and, if so, whether to bifurcate the conversion feature and account for it as a separate derivative liability. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a lattice model, in accordance with ASC 815-15 “Derivative and Hedging” to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether net-cash settlement of the derivative instrument could be required within 12 months after the balance sheet date.

Beneficial Conversion Features:

The Company evaluates the conversion feature for whether it was beneficial as described in ASC 470-30. The intrinsic value of a beneficial conversion feature inherent to a convertible note payable, which is not bifurcated and accounted for separately from the convertible note payable and may not be settled in cash upon conversion, is treated as a discount to the convertible note payable. This discount is amortized over the period from the date of issuance to the date the note is due using the effective interest method. If the note payable is retired prior to the end of its contractual term, the unamortized discount is expensed in the period of retirement to interest expense. In general, the beneficial conversion feature is measured by comparing the effective conversion price, after considering the relative fair value of detachable instruments included in the financing transaction, if any, to the fair value of the shares of common stock at the commitment date to be received upon conversion.

Fair Value of Financial Instruments:

The Company measures its financial assets and liabilities in accordance with the requirements of FASB ASC 820, “Fair Value Measurements and Disclosures”. As defined in FASB ASC 820, the fair value is 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 (exit price). The Company utilized the market data of similar entities in its industry or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. FASB ASC 820 established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement) as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date and includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

Revenue Recognition and Unearned Revenue:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers." Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605). The new standard's core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring good or services to a customer. The principles in the standard are applied in five steps: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. We recognized the cumulative effect of adopting this guidance as an adjustment to our opening balance of retained earnings. Prior periods will not be retrospectively adjusted. The adoption of Topic 606 does not have a material impact to our consolidated financial statements, including the presentation of revenues in our Consolidated Statements of Operations, which were not broken down by revenue stream or geographic areas since the Company only sells within the United States and has only one revenue stream.

Income Taxes:

The Company accounts for income taxes utilizing ASC 740, "Income Taxes" ("ASC 740"). ASC 740 requires the measurement of deferred tax assets for deductible temporary differences and operating loss carry forwards, and of deferred tax liabilities for taxable temporary differences. Measurement of current and deferred tax liabilities and assets is based on provisions of enacted tax law. The effects of future changes in tax laws or rates are not included in the measurement. The Company recognizes the amount of taxes payable or refundable for the current year and recognizes deferred tax liabilities and assets for the expected future tax consequences of events and transactions that have been recognized in the Company's financial statements or tax returns. The Company has recorded a 100% valuation allowance against net deferred tax assets due to uncertainty of their ultimate realization. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company also follows the guidance for accounting for income tax uncertainties. In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. No liability for unrecognized tax benefits was recorded as of December 31, 2018 and 2017.

Employee Stock-Based Compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation-Stock Compensation". ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period. The Company has elected to adopt ASU 2016-09 and has a policy to account for forfeitures as they occur.

Non-Employee Stock-Based Compensation:

The Company accounts for stock-based compensation in accordance with the provision of ASC 505-50, "Equity Based Payments to Non-Employees," which requires that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest.

Related Parties:

The Company accounts for related party transactions in accordance with ASC 850 ("Related Party Disclosures"). A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

On October 25, 2018 the Company borrowed \$100,000 from its Chief Executive Officer and Chairman, Jay Nussbaum pursuant to a promissory note. The note bears interest at the rate of 6% per annum and is due on November 30, 2018. The Company used the proceeds from this loan to fund our immediate short-term cash needs pending settlement of the customer invoice for the WASP shipped October 9, 2018. The note was repaid in full on November 9, 2018, including \$723 in interest.

On November 10, 2017, the Company and Global Security Innovative Strategies, LLC (“GSIS”), a related party, entered in an agreement whereby GSIS will provide business development support and general consulting services for sales opportunities with U.S. government agencies and other identified prospects and consulting support services for the Company’s role and activities as part of the Security Center of Excellence in Orlando, Florida. The agreement was for a period of six months beginning on November 1, 2017. On September 26, 2018, the parties amended the agreement to extend the period of service through September 2019 with monthly auto renew extensions thereafter. The Company also agreed to issue 100,000 options to purchase Company stock which were immediately vested, had a strike price of \$1.00 and terminate on September 26, 2022. The Company pays GSIS a fee of \$10,000 per month. The Company agreed to pay the expenses of GSIS incurred in connection with the performance of its duties under the agreement. Either party may terminate or renew the agreement at any time, for any reason or no reason, upon at least 30 days’ notice to the other party. David Aguilar, a member of the Company’s board of directors, is a principal at GSIS.

As of December 31, 2018, and 2017, there was \$0 and \$171,981 accrued interest payable, respectively, to related parties on convertible notes payable. See Footnote 6 – Related Party Convertible Notes Payable and Derivative Liability and Footnote 8 – Series 2017 Secured Convertible Note – Related Party for further information.

Earnings or Loss per Share:

The Company accounts for earnings per share pursuant to ASC 260, Earnings per Share, which requires disclosure on the financial statements of "basic" and "diluted" earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options and warrants for each year. As further described in Footnote #6 – Related Party Convertible Notes Payable and Derivative Liability, \$3,000,000 in convertible debt could be converted into 3,000,000 shares of common stock as of December 31, 2017 and was converted in December 2018 leaving a zero balance owed. As further described in Footnote #8 – Series 2017 Secured Convertible Note – Related Party, \$1,000,000 in convertible debt could be converted into 1,000,000 shares of common stock as of December 31, 2017. The debt increased to \$2,000,000 during 2018 and was converted in December 2018 leaving a zero balance owed. As further described in Footnote #11 – Employee Stock Options, 13,610,000 options and 7,627,500 options are exercisable as of December 31, 2018 and 2017, respectively. As further described in Footnote #12 – Warrants, 2,280,000 warrants and 2,232,500 warrants are exercisable as of December 31, 2018 and 2017, respectively. As there was a net loss for the years ended December 31, 2018 and 2017, basic and diluted losses per share in each such year are the same.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the least term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations cash flows or financial condition.

Other than those pronouncements, management does not believe that there are any other recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on the Company's financial statements.

2. MANAGEMENT'S LIQUIDITY PLANS

On August 27, 2014, FASB issued ASU 2014-05, *Disclosure of Uncertainties about an Entity's ability to Continue as a Going Concern*, which requires management to assess a company's ability to continue as a going concern within one year from financial statement issuance and to provide related footnote disclosures in certain circumstances.

The accompanying consolidated financial statements and notes have been prepared assuming the Company will continue as a going concern. For the year ended December 31, 2018, the Company incurred a net loss of \$8,475,313, generated negative cash flow from operations, has an accumulated deficit of \$38,472,090 and working capital of \$212,879.

For the year ended December 31, 2017, the Company disclosed that its ability to continue as a going concern was predicated on the Company's ability to create and market innovative products, raise capital, reduce debt or renegotiate terms, and to sustain adequate working capital to finance its operations. During 2018, the Company met or exceeded those predications. In 2018, the Company made a strategic decision to focus on its aerostats, WASP and WASP Lite, and opportunities for those products with military and government customers, resulting in an order valued in excess of \$3.7 million which was announced in December 2018 and expected to be delivered by the end of 2019. In December 2018 and January 2019, the Company raised over \$4,000,000 through stock sales which will provide ample working capital to produce WASP systems. In December 2018, the holders of \$5,000,000 in convertible notes exercised their rights to convert to equity leaving only \$2,000,000 in bank debt on the books. As of March 1, 2019, the Company has approximately \$1,500,000 in positive working capital, an improvement of more than \$2,000,000 dollars over the negative working capital balance at the end of 2017.

The focus on opportunities for aerostats, the settlement of debt obligations, the funds generated from stock sales and other initiatives contributing to additional working capital should avoid any substantial doubt about the Company's ability to continue as a going concern as defined by ASU 2014-05. We believe that the actions discussed above mitigate the substantial doubt raised by our recent operating losses and satisfy our estimated liquidity needs twelve months from the issuance of the financial statements. However, we cannot predict, with certainty, the outcome of our actions to generate liquidity and the failure to do so could negatively impact our future operations.

3. INVENTORIES

Inventories consisted of the following, including \$565,406 and \$6,366 inventory obsolescence write offs for the years ended December 31, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Raw Materials	\$ 136,555	\$ 114,119
Work in progress	180,041	482,770
Finished Goods	523,698	398,912
In Transit	-	5,468
Less valuation allowance	(532,369)	(9,572)
Total	<u>\$ 307,925</u>	<u>\$ 991,697</u>

4. PREPAID EXPENSES

Prepaid expenses consisted of the following:

	<u>2018</u>	<u>2017</u>
Prepaid insurance	\$ 28,828	\$ 30,847
Prepaid products and services	54,870	66,246
Prepaid rent and security deposit	5,915	5,915
	<u>\$ 89,613</u>	<u>\$ 103,008</u>

5. INTANGIBLE ASSETS

On July 20, 2015, the Company, through its wholly-owned subsidiary Drone AFS Corp., purchased substantially all the assets of Adaptive Flight, Inc. (“AFI”), a Georgia corporation. The Company purchased assets, including, but not limited to, intellectual property, licenses and permits, including commercial software licenses for the “GUST” (Georgia Tech UAV Simulation Tool) autopilot system and other transferable licenses which include flight simulation and fault tolerant flight control algorithms. The Company paid \$100,000 in immediately available funds and \$100,000 to be held in escrow. In addition, the Company issued 150,000 shares of unregistered common stock valued at \$8.40 per share, on a post-October 29, 2015 reverse stock split basis, on the date of agreement, to be held in escrow.

The Company had a milestone of twelve months to complete a technology integration plan, the non-completion of which could result in the return of the purchased assets and termination of the Company’s obligations to release the escrow cash and shares. Additional milestones included exclusive, no-cost and perpetual licenses to all contributing intellectual property included or related to the purchased assets. As such time as all milestones were met, one-half of the escrow shares were to be released to AFI. Upon termination of the escrow agreement, anticipated to be twelve months from the closing of the asset purchase, if all milestones had been met, the remaining escrow shares would be released to AFI; but if all milestones have not been met, the escrow cash and escrow shares would be released to the Company and the purchased assets would be returned to AFI. According to the terms of the Escrow Agreement, if the escrow share value was less than \$1,400,000, the Company must issue an additional number of unregistered shares, not to exceed 50,000 shares. At December 31, 2015, the value of the 150,000 shares was \$3.23 per share, or \$484,500. The Company recorded \$161,500 as an additional liability and expense at December 31, 2015 for the cost of 50,000 shares at \$3.23 per share. On June 3, 2016, the Integration Plan was deemed to be completed. At June 3, 2016, the value of the 150,000 shares was \$3.01 per share, or \$451,150. The additional liability was reduced to \$150,500 for the cost of 50,000 shares at \$3.01 per share. The Company recorded the \$11,000 reduction in the additional liability through the statement of operations at June 3, 2016. The Company began amortizing the \$1,460,000 of purchased assets over a sixty-month period on June 3, 2016 in the amount of \$24,333 per month. Total amortization expense for the years ended December 31, 2018 and 2017 was \$292,000 and \$292,000, respectively. The remaining unamortized balance of \$705,667 is estimated be amortized in the estimated amounts of \$292,000 per year for 2019 through 2020 and \$121,667 in 2021.

The asset acquisition did not qualify as a business combination under ASC 805-10 and has been accounted for as a regular asset purchase.

6. RELATED PARTY CONVERTIBLE NOTES PAYABLE AND DERIVATIVE LIABILITY

On September 29, 2016, the Company issued Convertible Promissory Notes Series 2016 due October 1, 2017 in the aggregate principal amount of \$3,000,000 in a private placement to the Chairman of the Board and the Chairman of the Strategic Advisory Board of the Company, both of whom are greater than 10% shareholders of the Company. The notes bear interest at a rate of six percent (6%) per annum. The Company may prepay the notes at any time without penalty. If the Company does not prepay a note in full or the holder does not convert the note before the maturity date, the Company may pay the outstanding principal amount and any accrued and unpaid interest on the maturity date with cash or with common stock or through a combination of cash and stock at the Company’s discretion. The conversion price of the notes is the lesser of \$3.00 per share or eight-five percent (85%) of the lowest per share purchase price of common stock in the next sale of common stock in which the Company receives gross proceeds of an amount greater than or equal to \$3,000,000.

On August 3, 2017 (the “Effective Date”), the Company entered into amendments (the “Convertible Note Amendments”) with the owners and holders of the following convertible promissory notes issued by the Company (the “Series 2016 Convertible Notes”):

- Convertible Promissory Note in the original principal amount of \$1,500,000 issued by the Company on September 29, 2016 to Frost Gamma Investments Trust (“Frost Gamma”). Frost Gamma is a trust that is controlled by Dr. Phillip Frost, a substantial shareholder of the Company; and
- Convertible Promissory Note in the original principal amount of \$1,500,000 issued by the Company on September 29, 2016 to Jay H. Nussbaum, the Company’s Chief Executive Officer and Chairman of the Board of Directors.

The Convertible Note Amendments extend the maturity date for each of the Series 2016 Convertible Notes to April 1, 2019 (the “Maturity Date”) and revise the conversion price to mean \$1.00 per share subject to proportional adjustment in the event of stock splits, stock dividends and similar corporate events. Accordingly, the notes have been reclassified as long-term debt. Consistent with the original terms of the Series 2016 Convertible Notes, interest accrues at the rate of 6% interest per annum and is payable on the Maturity Date. The accrued interest is payable at the holders’ option in cash or shares of our common stock valued at the \$1.00 per share conversion price. The Convertible Note Amendments provide that an event of default in the City National Bank Loan will be treated as an event of default under the Series 2016 Convertible Notes.

On November 9, 2017, the Company entered into amendments (the “November 2017 Convertible Note Amendments”) with the owners and holders of the Series 2016 Convertible Notes to permit the payment of, at the holders’ election, accrued and unpaid interest either in monthly or quarterly payments at any time after the Effective Date. Both the principal amount and accrued interest may be paid with: (i) cash; (ii) the issuance and delivery to the holder of shares of common stock of the Company at the conversion price provided for in the Series 2016 Convertible Note; or (iii) any combination of cash and shares of Common Stock, as determined by the holder in its sole discretion.

The Company evaluated the modification under ASC 470-50 and determined that it qualified as an extinguishment of debt. The aggregate loss on extinguishment of debt in 2017 is \$681,988, including (\$378) on derivative liabilities, and \$682,366 on unamortized debt discount. The embedded conversion feature of the note’s pre-modification required liability classification.

On December 21, 2018, the Company entered into amendments (the “December 2018 Convertible Note Amendments”) with the owners and holders of the Series 2016 Convertible Notes to reduce the conversion price under such notes to \$0.50 per share in exchange for the holders of such convertible notes agreement to convert the principal amount and accrued interest under such notes concurrently with the execution of the amendment. The Company evaluated the modification of the conversion price under ASC 470-50 and determined that it qualified as an extinguishment of debt. The gain or loss on extinguishment is calculated using the fair value of stock issued, minus the principal and accrued interest of the convertible notes. Since the result was a gain and the debt was associated with related parties, the gain was recorded as Paid in Capital. The Company issued 3,177,411 shares of common stock to Frost Gamma in full settlement of the \$1,500,000 principal balance and \$88,705 accrued interest. The Company issued 3,000,000 shares of common stock to Jay Nussbaum in full settlement of the \$1,500,000 principal balance and settled \$88,212 accrued interest in cash.

The Company analyzed the conversion option in the notes for derivative accounting treatment under ASC Topic 815, “Derivatives and Hedging,” and determined that the instrument does not qualify for derivative accounting.

The Company therefore performed an analysis to determine if the conversion option was subject to a beneficial conversion feature and determined that the instrument does not have a beneficial conversion feature.

The following table sets forth, by level within the fair value hierarchy, the Company’s financial liabilities that were accounted for at fair value as of December 31, 2018 and December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
LIABILITIES:				
Derivative liabilities as of December 31, 2018	\$ 0	\$ 0	\$ 0	\$ 0
Derivative liabilities as of December 31, 2017	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The following table represents the change in the fair value of the derivative liabilities during the years ended December 31, 2018 and 2017:

Fair value of derivative liabilities as of December 31, 2016	\$ 1,832,013
Change in fair value of derivative liabilities	(1,831,635)
Gain on extinguishment of debt	<u>(378)</u>
Fair value of derivative liabilities as of December 31, 2017	\$ 0
Change in fair value of derivative liabilities	(0)
Fair value of derivative liabilities as of December 31, 2018	<u>\$ 0</u>

The amortization of the debt discount is \$0 and \$1,409,790 for the years ended December 31, 2018 and 2017, respectively.

7. REVOLVING LINE OF CREDIT

On August 2, 2017, the Company issued a promissory note to City National Bank of Florida (“CNB”) in the principal amount of \$2,000,000, the CNB Note, with a maturity date of August 2, 2018. On September 26, 2018, the Company and CNB agreed to extend the maturity date of the promissory note to August 2, 2019. The Company evaluated the modification under ASC 470-50 and determined that it did not qualify as an extinguishment of debt. The note evidences a revolving line of credit with advances that may be requested by the Company until the maturity date of August 2, 2019 so long as no event of default exists under the note, the Company or Mr. Nussbaum does not cease doing business, Mr. Nussbaum does not seek to revoke or modify his guarantee of the Note, the Company does not misapply the proceeds of this loan or CNB in good faith does not believe itself insecure. The initial CNB Note bore an interest rate at a variable rate equal to 0.250 percentage points over the Wall Street Journal Prime Rate payable monthly. At renewal, the variable rate was increased to 1.0 percentage points over the Wall Street Journal Prime Rate. The Company will pay to CNB a late charge of 5.0% of any monthly payment not received by Lender within 10 calendar days after its due date. The Company may prepay the note at any time without penalty. In the event of a default, the interest rate will increase to the highest lawful rate. The Company is obligated to maintain depository accounts with CNB with a minimum average annual balance of \$1,600,000 in aggregate with Mr. Nussbaum. In the event the Company does not maintain this account balance, CNB may charge the Company a fee equal to 2% of the deficiency as additional interest under the note. The CNB Note is personally guaranteed by Mr. Nussbaum, the Company’s Chief Executive Officer pursuant to written guarantee in favor of CNB (the “CNB Guarantee”). Mr. Nussbaum and the Company are obligated to maintain an aggregate unencumbered liquidity of no less than \$6,000,000 in the form of cash, repurchase agreements, certificates of deposit or marketable securities acceptable to CNB. In addition, to secure our obligations under the note, we entered into a security agreement in favor of CNB (the “Security Agreement”) encumbering all of our accounts, inventory and equipment along with an assignment of a bank account we maintain at CNB with an approximate balance of \$120,000. As of December 31, 2018, \$2,000,000 has been drawn against the line of credit, an increase of \$1,000,000 over the balance at December 31, 2017. Accrued interest of \$10,931 and \$5,625 has been recognized as of December 31, 2018 and 2017, respectively.

Indemnification Agreement

On August 3, 2017, the Company entered into an Indemnification Agreement with Mr. Nussbaum in order to indemnify and defend him to the fullest extent permitted by law for any claim, expense or obligation which might arise as a result of his guarantee of the CNB Note.

8. SERIES 2017 SECURED CONVERTIBLE NOTE – RELATED PARTY

On August 3, 2017, the Company issued a Secured Convertible Promissory Note Series 2017 due August 2, 2018 in the aggregate principal amount of \$2,000,000 (the “Series 2017 Convertible Note”) in a private placement to Frost Nevada Investments Trust (“Frost Nevada”). On September 26, 2018, the Company and Frost Nevada agreed to extend the maturity date of the promissory note to August 2, 2019. The Company evaluated the modification under ASC 470-50 and determined that it did not qualify as an extinguishment of debt. Frost Nevada is a trust that is controlled by Dr. Frost, a substantial shareholder of the Company. The note evidences a revolving line of credit with advances that may be requested by the Company until the maturity date of August 2, 2019 so long as no event of default exists under the loan. The Company may request advances of principal under this note equal to and at the same time as it requests advances, if any, pursuant to the CNB Note. The note bears interest at a variable rate equal to 0.250 percentage points over the Wall Street Journal Prime Rate. The Company may prepay the notes at any time without penalty. If the Company does not prepay the note in full or the holder does not convert the note before the maturity date, the Company may pay the outstanding principal amount and any accrued and unpaid interest on the maturity date with cash or with common stock or through a combination of cash and stock at Frost Nevada’s discretion. The conversion price under the note is \$1.00 per share subject to proportional adjustment in the event of stock splits, stock dividends and similar corporate events. The Series 2017 Convertible Note is secured by a security interest in all the Company’s assets. This security interest is subordinate to the security interest of CNB discussed in Footnote #7 above.

During 2018, the Company borrowed an additional \$1,000,000 on the Series 2017 Convertible Note bringing the total amount of principal to \$2,000,000. On December 21, 2018, the Company entered into an amendment (the “December 2018 Convertible Note Amendments”) with Frost Nevada to reduce the conversion price under such notes to \$0.50 per share in exchange for Frost Nevada’s agreement to convert the principal amount and accrued interest under such notes concurrently with the execution of the amendment. The Company evaluated the modification of the conversion price under ASC 470-50 and determined that it qualified as an extinguishment of debt. The gain or loss on extinguishment is calculated using the fair value of stock issued, minus the principal and accrued interest of the convertible notes. Since the result was a gain and the debt was associated with related parties, the gain was recorded as Paid in Capital. The Company issued 4,030,740 shares of common stock to Frost Nevada in full settlement of the \$2,000,000 principal balance and \$15,370 accrued interest.

The Company analyzed the conversion option in the notes for derivative accounting treatment under ASC Topic 815, “Derivatives and Hedging,” and determined that the instrument does not qualify for derivative accounting.

The Company therefore performed an analysis to determine if the conversion option was subject to a beneficial conversion feature and determined that the instrument does not have a beneficial conversion feature.

9. SHAREHOLDERS’ EQUITY

For the year ended December 31, 2018

The Company issued a total of 14,458,151 shares of common stock during the year ended December 31, 2018, as described below:

On October 25, 2018, the Board approved Amendment No. 3 to the August 27, 2014 Independent Contractor Agreements it entered into with Dr. Philip Frost and Steven Rubin who serve as members of the Company’s Strategic Advisory Board (the “SAB Amendments”). The SAB Amendments extend the term of the agreements from November 1, 2018 until October 31, 2019 and provide for the following equity-based compensation: (a) for Dr. Frost, an award of 150,000 shares of the Company’s unregistered restricted Common Stock and (b) for Mr. Rubin, an award of 100,000 shares of the Company’s unregistered restricted Common Stock. The restricted stock vests upon the occurrence of a change of control (as defined in the SAB Amendments). The Company recognized \$20,833 expense for the pro rata portion of shares earned by the two members during the twelve months ended December 31, 2018, amortizing the expense over the 12 months of the service agreement regardless of the vesting condition.

On October 24, 2018, the Company commenced an offering of up to 10,000,000 shares of its common stock (the “Offered Shares”) in a private placement of up to \$5,500,000 to certain accredited investors at a purchase price of \$0.55 per share pursuant to a Stock Purchase Agreement (the “SPA”). Closing of the offering pursuant to the SPA is conditioned upon certain, limited customary representations and warranties, as well as the Company having received an aggregate of \$4,000,000 in new orders from a prime government contractor or directly from the U.S. government at any time commencing after October 9, 2018 (the “Qualifying Sales Order”). As required under the SPA, upon receipt by the Company of a Qualifying Sales Order, the Company will give written notice to the investors notifying them that the Company intends to close on the purchase of the Offered Shares pursuant to the SPA. Within three days after the delivery of the notice to the investors, the Company and the investors will then close under the SPA and at closing, the Company will issue to each purchasing investor the number of shares subscribed for by each Investor.

On December 21, 2018, the Board approved an Amended and Restated Stock Purchase Agreement (the “Amended SPA”) relating to the Offered Shares to reduce the purchase price in the Offering to \$0.50 per share, reduce the maximum offering amount from \$5,500,000 to \$5,000,000, extend the initial closing date of the Offering to January 15, 2019 and permit sales of the Common Stock for a period of 30 days after the initial closing in order to attract a greater number of investors. In addition, the Amended and Restated Stock Purchase Agreement revised the definition of the event triggering the initial closing date to the date when the Company enters into an agreement with a prime government contractor at any time commencing after October 8, 2018 whereby the Company agrees to provide a minimum of \$4,000,000 in goods and services to such contractor.

On December 21, 2018, the Company issued 6,177,411 shares of its common stock pursuant to the conversion of the 2016 Related Party Notes as discussed above in Footnote #6 and 4,030,740 shares of its common stock pursuant to the conversion of the 2017 Related Party Note as discussed above in Footnote #8.

On December 27, 2018, the Company completed the sale of 4,000,000 shares of its common stock pursuant to the Amended SPA at \$0.50 per share for an aggregate of \$2,000,000. On January 25, 2019, the Company completed an additional closing as further discussed below in Footnote #16 – Subsequent Events.

In September 2016, the Company issued 1,349,000 shares of restricted common stock outside of the 2015 Equity Plan to Jay Nussbaum, Felicia Hess, Daniyel Erdberg, Kendall Carpenter, Mike Silverman and Reginald Brown pursuant to Stock Award Agreements. The shares will vest upon consummation of a significant equity and/or debt financing of at least \$5,000,000 provided that the holder remains engaged by the Company through the vesting date. On August 3, 2017, these awards were modified so that the restrictions set forth in the RSA lapse upon the earlier of (i) consummation of a significant equity and/or debt financing from which the Company receives gross proceeds of at least \$7,000,000 or (ii) a change in control (as defined in the RSA Amendment), provided that, in either case, the holder remains engaged by the Company through the date of such event. The Company does not believe the modified vesting conditions are probable of being achieved, and as such, no stock-based compensation expense has been recorded. The Company will reassess whether achievement of the vesting conditions is probable at each reporting date. If it is probable, stock-based compensation will be recognized.

On March 28, 2018, these awards were modified in recognition of the Company securing a substantial sales order and recent business development activity and vested on that date. On that date, the awards were determined to be probable for vesting and stock-based compensation was recognized based on the fair market value of the stock on March 28, 2018. The Company recorded \$944,300 in stock-based compensation for these awards during the year ended December 31, 2018.

As of December 31, 2018, the Company had unamortized stock compensation of \$104,167 for non-employees.

For the year ended December 31, 2017

The Company issued a total of 500,250 shares of common stock during the year ended December 31, 2017, as described below:

On April 24, 2017, the holder of Series A preferred stock converted a total of 100,100 shares of Series A for an aggregate of 250,250 shares of restricted common stock in accordance with their conversion rights which includes a blocker with respect to individual ownership percentages.

On August 3, 2017, the Company entered into an amendment to the August 24, 2014 Independent Contractor Agreements it entered into with Dr. Philip Frost and Steven Rubin who serve as members of the Company's Strategic Advisory Board (the "SAB Amendments"). The SAB Amendments extend the term of the agreements from May 1, 2017 until April 30, 2018 and provide for the following equity based compensation: (a) for Dr. Frost, a warrant to purchase 2,000,000 shares of the Company's Common Stock (the "Frost Warrant") and an award of 150,000 shares of the Company's unregistered restricted Common Stock and (b) for Mr. Rubin, an award of 100,000 shares of the Company's unregistered restricted Common Stock. The restricted stock vests upon the occurrence of a change of control (as defined in the SAB Amendments). The Warrant has a term of five years and exercise price of \$1.00 per share subject to proportional adjustment in the event of stock splits, stock dividends and similar corporate events. The Company recognized \$22,500 and \$155,001 expense for the pro rata portion of shares earned by the two members during the twelve months ended December 31, 2018 and 2017, respectively, amortizing the expense over the 12 months of the service agreement regardless of the vesting condition.

10. PREFERRED STOCK

For the year ended December 31, 2018

On August 28, 2018, the Company filed with the Nevada Secretary of State of a Certificate of Withdrawal to withdraw the Certificates of Designations of the Company's previously designated Convertible Preferred Stock, Series A, B, B-1, C, D, E, F, G as no shares of these series of preferred stock are issued or outstanding.

For the year ended December 31, 2017

All the preferred stock of the Company is convertible into common shares. The Series A stock conversion ratio is 1 to 2.5 common shares. All preferred stock has voting rights equal to the number of shares it would have on an 'as if converted' basis subject to any ownership limitations governing such preferred shares. All preferred stock is entitled to dividends rights equal to the number of shares it would have on an 'as if converted' basis. None of the preferred stock is redeemable, participating nor callable.

The Company analyzed the embedded conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the conversion option should be classified as equity.

On April 24, 2017, the holder of Series A preferred stock converted a total of 100,100 shares of Series A for an aggregate of 250,250 shares of restricted common stock in accordance with their conversion rights which includes a blocker with respect to individual ownership percentages.

11. EMPLOYEE STOCK OPTIONS

For the year ended December 31, 2018

On March 28, 2018, upon approval of the Company's board of directors, the Company granted outside its 2015 Equity Plan, 100,000 options each to a newly-appointed director, Robert Guerra. These options vest 50% one year after the date of grant and the remaining 50% two years after the date of grant provided the director is still actively involved with the Company. The options are exercisable at an exercise price of \$1.00 per share and expire on March 28, 2022. During the year ended December 31, 2018, \$21,739 compensation expense was recognized on these 100,000 options with a remaining balance of \$16,654 to be recognized over the vesting period.

On May 16, 2018, upon approval of the Company's board of directors, the Company granted outside its 2015 Equity Plan, 460,000 options to four employees. Reginald Brown, Jr. was issued 200,000 options and Kendall Carpenter was issued 130,000 options which were immediately vested, are exercisable at an exercise price of \$1.00 per share and expire May 16, 2022. Two engineers received a total of 130,000 shares which vest 50% after one year and the remaining 50% after two years, are exercisable at an exercise price of \$1.00 per share and expire May 16, 2022. During the year ended December 31, 2018, \$174,639 compensation expense was recognized on these 460,000 options with a remaining balance of \$27,352 to be recognized over the vesting period.

On August 22, 2018, upon approval of the Company's board of directors, the Company granted outside its 2015 Equity Plan, an aggregate of 5,000,000 options to five management employees and four directors. Included in this award were the following grants to Executive Officers and Directors of the Company: 1,950,000 options to Jay Nussbaum, Chief Executive Officer and Chairman of the Board of Directors, 800,000 options to Felicia Hess, Chief Operating Officer, 800,000 options to Daniyel Erdberg, President, 300,000 options to Kendall Carpenter, Chief Financial Officer and the following directors of the Company: 150,000 options to David Aguilar, 25,000 options to John Miller, 25,000 options to Timothy Hoechst and 25,000 options to Robert Guerra. The options vest upon the Company receiving an aggregate of \$4,000,000 in new orders from a prime government contractor or directly from the U.S. government at any time commencing after the date of issuance. The options are exercisable at an exercise price of \$1.00 per share and expire August 22, 2022. On September 26, 2018, the Board resolved to cancel the Options to purchase 5,000,000 shares of common stock issued on August 22, 2018 that had not vested.

On September 26, 2018, upon approval of the Company's board of directors, the Company granted outside its 2015 Equity Plan, 6,000,000 options to five management employees and four directors. Jay Nussbaum was issued 2,350,000 options, Felicia Hess was issued 1,000,000 options, Daniyel Erdberg was issued 1,000,000 options, Kendall Carpenter was issued 425,000 options, Reginald Brown, Jr. was issued 1,000,000 options. Director David Aguilar was issued 150,000 options and Directors John Miller, Timothy Hoechst and Robert Guerra were each issued 25,000 options. The options vest upon the Company receiving an aggregate of \$4,000,000 in new orders from a prime government contractor or directly from the U.S. government at any time commencing after the date of issuance. The options are exercisable at an exercise price of \$.65 per share and expire September 26, 2022. Of these 6,000,000 options, 5,000,000 options have been accounted for as a modification of the August 22, 2018 options. During the year ended December 31, 2018, \$2,601,005 compensation expense was recognized on these 6,000,000 options which vested December 21, 2018 when the Company entered into an agreement with a prime government contractor to provide a minimum of \$4,000,000 in goods and services to such contractor.

For the year ended December 31, 2017

On January 9, 2017, the Company issued an option to purchase 100,000 shares of common stock with an exercise price of \$2.90 per share to a director. The option vests 50,000 after one year from grant date and another 50,000 two years from grant date with an expiration date of four years from grant date provided that the Director is still providing service to the Company. During the twelve months ended December 31, 2018 and 2017, \$45,516 and \$129,059, accordingly, compensation expense was recognized on these 100,000 options.

On August 3, 2017, upon approval of the Company's board of directors, the Company issued outside its 2015 Equity Plan, 5,210,000 options to purchase the Company's common stock to officers, directors and employees for services provided. These stock options immediately vested, are exercisable at an exercise price of \$1.00 per share and expire on August 3, 2021. Jay Nussbaum was issued 2,000,000 options, Felicia Hess was issued 1,200,000 options, Dan Erdberg was issued 1,140,000 options, Kendall Carpenter was issued 275,000 options, Directors David Aguilar, Mike Haas and General Wayne Jackson were issued 100,000, 10,000 and 10,000 options, respectively. The remaining 475,000 options were issued to employees and consultants and during 2018, 80,000 of those options were cancelled due to termination of certain employees. On December 21, 2018, the Board modified the exercise price of the remaining 5,130,000 options to \$0.50 per share. During the twelve months ended December 31, 2018 and 2017, 421,059 and \$3,354,097 compensation expense, accordingly, was recognized on these August 3, 2017 options.

On November 9, 2017, upon approval of the Company's board of directors, the Company issued outside its 2015 Equity Plan, 2,000,000 options to purchase the Company's common stock to officers, directors, and for services provided. Jay Nussbaum was issued 900,000 options, Felicia Hess was issued 300,000 options, Dan Erdberg was issued 200,000 options, Kendall Carpenter was issued 170,000 options, Directors David Aguilar, Mike Haas and General Wayne Jackson were issued 10,000, 10,000 and 10,000 options, respectively. Reginald Brown, Jr. was issued 400,000 options. These stock options immediately vested, are exercisable at an exercise price of \$1.35 per share and expire on November 9, 2021. On December 21, 2018, the Board modified the exercise price of the 2,000,000 options to \$0.50 per share. During the twelve months ended December 31, 2018 and 2017, \$223,559 and \$1,846,075 compensation expense was recognized on these November 9, 2017 options.

On December 13, 2017, upon approval of the Company's board of directors the Company issued outside its 2015 Equity Plan, 100,000 options each to two newly-appointed directors, or a total of 200,000 options. These options vest 50% after one year and the remaining 50% after two years provided the director is still actively involved with the Company. The options are exercisable at an exercise price of \$1.00 per share and expire on December 13, 2021. During the twelve months ended December 31, 2018 and 2017, \$70,361 and \$3,593 compensation expense was recognized on these 200,000 options with a remaining balance of \$25,547 to be recognized over the vesting period.

During 2016, the Company granted 10,000 options to an employee with two-year vesting and an exercise price of \$3.00 and an expiration date of December 6, 2019. The Company recognized \$1,187 in compensation for the year ended December 31, 2018. No additional compensation will be recognized on these options which were cancelled due to the termination of the employee.

On June 1, 2015, the Company issued an option award to an employee for 37,500 shares vesting over three years with an exercise price of \$10.80 and expiration date of May 4, 2019. During the year ended December 31, 2018, \$14,367 compensation expense was recognized on these 37,500 options which have been cancelled due to the termination of the employee.

The Company used the Black-Scholes option pricing model to estimate the fair value on the date of grant of the 11,560,000 options granted during the twelve months ended December 31, 2018.

The following table summarizes the assumptions used to estimate the fair value of stock options granted during 2018 and 2017, as of the remeasurement date of December 21, 2018:

	2018	2017
Expected dividend yield	0%	0%
Expected volatility	80-96%	82-101%
Risk-free interest rate	2.41-2.93%	1.50-2.62%
Expected life of options	4.0 years	2.5-4.0 years

Under the Black-Scholes option pricing model, the fair value of the 11,560,000 options granted during the twelve months ended December 31, 2018 is estimated at \$2,841,390 on the date of grant. During the twelve months ended December 31, 2018, \$2,797,383 compensation expense was recognized on these 11,560,000 options with a total of \$44,006 to be recognized over the vesting periods.

During 2018, 250,000 options issued on May 18, 2015 with an exercise price of \$6.00 expired and 85,000 options issued December 10, 2015 with an exercise price of \$5.00 expired. The Company cancelled 180,000 options that had been issued to five employees who left the Company without exercising their options, including 37,500 issued June 1, 2015 with a strike price of \$10.80, 12,500 issued December 10, 2015 with a strike price of \$5.00, 40,000 issued April 27, 2016 with a strike price of \$2.91, 10,000 issued December 6, 2016 with a strike price of \$3.00, and cancelled 80,000 options issued August 8, 2017 with a strike price of \$1.00. The Company cancelled 5,000,000 options issued on August 22, 2018 on September 26, 2018 that had not vested.

The following table represents stock option activity as of and for the period ended December 31, 2018:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Life in Years	Aggregate Intrinsic Value
Outstanding – December 31, 2016	442,500	\$ 5.81	1.72	
Exercisable – December 31, 2016	407,500	\$ 5.57	1.65	\$ 0
Granted	7,510,000	\$ 1.12		
Cancelled or Expired	(7,500)	\$ 4.18		
Outstanding – December 31, 2017	7,945,000	\$ 1.38	3.50	
Exercisable – December 31, 2017	7,627,500	\$ 1.35	3.50	\$ 0
Granted	11,560,000	\$ 0.82		
Cancelled or Expired	(5,515,000)	\$ 1.37		
Outstanding – December 31, 2018	13,990,000	\$ 0.61	3.15	\$
Exercisable – December 31, 2018	13,610,000	\$ 0.59	3.16	\$ 0

12. WARRANTS

For the year ended December 31, 2018

As described above in Footnote #1 – Related Party Transactions, on September 26, 2018, the Company issued 100,000 warrants outside its 2015 Equity Plan to Global Security Innovative Strategies, LLC (“GSIS”) with an exercise price of \$1.00 per share and an expiration date of September 26, 2022 and which were immediately vested.

The following table summarizes the assumptions used to estimate the fair value of the 100,000 stock warrants granted during the year ended December 31, 2018 on the date of grant.

	<u>2018</u>
Expected dividend yield	0%
Expected volatility	91%
Risk-free interest rate	2.93%
Expected life of options	4.00 years

Under the Black-Scholes option pricing model, the fair value of the 100,000 warrants granted during the year ended December 31, 2018 is estimated at \$37,467 on the date of grant. During the year ended December 31, 2018, \$37,467 compensation expense was recognized on these 100,000 warrants.

For the year ended December 31, 2017

On August 3, 2017, upon approval of the Company's board of directors, the Company issued outside its 2015 Equity Plan, 30,000 warrants to purchase the Company's common stock to consultants for services provided. These warrants are immediately vested, are exercisable at an exercise price of \$1.00 per share and expire on August 3, 2021. On December 21, 2018, the Board modified the exercise price of the 30,000 warrants to \$0.50 per share. During the twelve months ended December 31, 2018 and 2017, \$2,462 and \$19,269 compensation expense, respectively, was recognized on these August 3, 2017 options.

On August 3, 2017, the Company issued a warrant to purchase 2,000,000 shares of the Company's common stock to Dr. Philip Frost for services to be provided under the terms of his service to the Strategic Advisory Board through April 2018. These warrants immediately vested, are exercisable at an exercise price of \$1.00 per shares and expire on August 3, 2022. On December 21, 2018, the Board modified the exercise price of the 2,000,000 warrant to \$0.50 per share. During the twelve months ended December 31, 2018 and 2017, \$143,375 and \$1,391,793 compensation expense, respectively, was recognized on these August 3, 2017 warrants.

On November 9, 2017, upon approval of the Company's board of directors, the Company issued outside its 2015 Equity Plan, 20,000 warrants to purchase the Company's common stock to consultants for services provided. These warrants are immediately vested, are exercisable at an exercise price of \$1.35 per share and expire on November 9, 2021. On December 21, 2018, the Board modified the exercise price of the 20,000 warrants to \$0.50 per share. During the twelve months ended December 31, 2018 and 2017, \$2,236 and \$18,456 compensation expense, accordingly, was recognized on these November 9, 2017 warrants.

The following table summarizes the assumptions used to estimate the fair value of the 2,050,000 warrants granted during 2017, as of the remeasurement date of December 21, 2018:

	<u>2017</u>
Expected dividend yield	0%
Expected volatility	80%
Risk-free interest rate	2.62%
Expected life of warrants	4-5 years

The following table represents warrant activity as of and for the period ended December 31, 2018 and 2017:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding – December 31, 2016	183,737	\$ 7.35	2.70	
Exercisable – December 31, 2016	171,237	\$ 7.15	2.79	\$ 0.00
Granted	2,050,000	\$ 1.00		
Forfeited or Expired	(1,237)	\$ 303.37		
Outstanding – December 31, 2017	2,232,500	\$ 1.36	4.34	
Exercisable – December 31, 2017	2,232,500	\$ 1.36	4.34	\$ 0.00
Granted	100,000	\$ 1.00		
Forfeited or Expired	(52,500)	\$ 8.57		
Outstanding – December 31, 2018	2,280,000	\$ 0.72	3.44	
Exercisable – December 31, 2018	2,280,000	\$ 0.72	3.44	\$ 0.00

13. INCOME TAXES

The Company uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. On December 22, 2017, H.R. 1, formally known as the Tax Cut and Jobs Act (the "Act") was enacted into law. The Act provides for significant tax law changes and modifications with varying effective dates. The major change that affects the Company is reducing the corporate income tax rate from 35% to 21%.

The net deferred asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$14,137,574 for 2018 and \$10,718,755 for 2017 and will begin expiring in 2034. Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. The \$14,137,574 estimate of net operating loss carry-forward is calculated after we consider the effect of Section 382.

Deferred tax assets consist of the tax effect of net operating loss carry-forwards. The Company has provided a full valuation allowance on the deferred tax assets because of the uncertainty regarding its realizability. Deferred tax assets consist of the following:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Net operating loss carry-forwards	\$ 2,968,891	\$ 2,250,939
Valuation allowance	(2,968,891)	(2,250,939)
	<u>\$ 0</u>	<u>\$ 0</u>

The Company's tax expense does not reflect the statutory rate since the Company's deferred tax asset is fully offset by a valuation allowance. The statute of limitations is open for the tax years ending December 31, 2015 and thereafter.

14. COMMITMENTS AND CONTINGENCIES

On November 17, 2014, the Company entered into a 60-month lease for 5,533 square feet of office and manufacturing space at 11651 Central Parkway Suite 118, Jacksonville, Florida, with an anticipated lease commencement date of February 1, 2015. The actual commencement date was July 1, 2015 and the lease was amended to 61 months expiring July 31, 2020. The monthly rent, including operating expenses and sales tax, for each year of the initial lease term is estimated to be \$5,915. Anticipated total rent during the term of the lease is as follows:

Year 2019 - \$ 77,309
Year 2020 - \$ 45,651

Rent expense in 2018 and 2017 was \$161,333, and \$131,710, respectively.

The Company acquired licenses to certain technology of Georgia Tech Research Corporation (GTRC) through its purchase of Adaptive Flight, Inc.'s assets on July 20, 2015 and through direct license from GTRC. The licenses are perpetual and if the technology is patented, are protected through the expiration date of the patented know-how. Two of the licenses require a minimum royalty of \$1,500 per year. Royalties are based on vehicle weight and range from \$12.50 to \$75.00 per vehicle on one license and \$25.00 to \$150.00 per vehicle on another license.

On May 16, 2016, Banco Popular North America ("Banco") filed a lawsuit in Duval County, Florida in the Circuit Court of the Fourth Judicial Circuit against Aerial Products Corporation d/b/a Southern Balloon Works ("Aerial Products"), Kevin M. Hess, LTAS, and the Company to collect on a delinquent Small Business Administration loan that Banco made in 2007 to Aerial Products with Mr. Hess as the personal guarantor. LTAS and the Company filed an Answer on June 30, 2016 and Responses to Interrogatories on December 16, 2016. The lawsuit is active and discovery is ongoing. It is our position that neither LTAS nor the Company are continuations of Aerial Products, and LTAS and the Company have denied all allegations made by Banco and will vigorously defend that position. The Company has evaluated the probability of loss as possible, but the range of loss is unable to be estimated.

Other than the Banco matter, there are no material claims, actions, suits, proceedings inquiries, labor disputes or investigations pending.

15. CONCENTRATIONS

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral related to its trade accounts receivable. At December 31, 2018, accounts receivable from one customer comprised 100% of the Company's total accounts receivable-trade. Revenues from one customer approximated 95% of total revenues for 2018. At December 31, 2017, accounts receivable from two customers comprised 100% of the Company's total accounts receivable-trade. Revenues from four customers approximated 85% of total revenues for 2017.

16. SUBSEQUENT EVENTS

On January 25, 2019, the Company completed the sale of 4,015,500 shares of its common stock pursuant to the Amended SPA (discussed above in Footnote #9 – Shareholders' Equity) at \$0.50 per share for an aggregate of \$2,007,750. The aggregate consideration consisted of (1) cash in the aggregate amount of \$1,432,750, (2) a promissory note from a single non-affiliate investor in the aggregate principal amount of \$500,000, (3) a full-recourse promissory note payable by Dan Erdberg in the amount of \$50,000 and (4) a full-recourse promissory note payable by Kendall Carpenter in the amount of \$25,000. Each note bears an interest rate at a fixed rate of 3% per annum and principal and interest under the notes may be prepaid at any time without penalty. The non-affiliate note was fully repaid on February 8, 2019, including \$575 in accrued interest. The Erdberg and Carpenter notes have a maturity date of January 25, 2020. The principal amount of the Carpenter note was reduced by \$7,500 on January 28, 2019 leaving a principal balance of \$17,500.

On March 20, 2019, the Company's board of directors approved 180,000 options outside its 2015 Equity Plan to purchase the Company's common stock to two employees and a contractor for services provided. Two grants totaling 80,000 options vest after one year and one grant of 100,000 options vests after two years. These stock options are exercisable at an exercise price of \$1.00 per share and expire on March 20, 2023.

VOLUNTARY SEPARATION AGREEMENT

DRONE AVIATION HOLDING CORP (“Company”) and **Kevin Hess** (“Employee”) make the following Voluntary Separation Agreement (the “Agreement”).

Recitals

A. Employee and Company mutually agree to separate Employee from employment with Company effective March 31, 2019.

B. Employee is forming a new company which will provide services to Company under separate agreement.

C. In association with Employee’s separation from employment and new business venture, Company and Employee desire to address any pending issues and settle all pending matters, including all claims, potential claims and disputes between the parties.

Terms of Agreement

In consideration of the promises contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, Company and Employee agree as follows:

Section 1: Recitals.

The Recitals are true and accurate and incorporated into this Agreement.

Section 2: Separation of Employment.

Employee will separate from employment with Company on March 31, 2019 (“Separation Date”).

Section 3: Independent Contractor Agreement.

In consideration of the reciprocal promises in this Agreement, Company and Cognitive Carbon Corporation will enter into a separate independent contractor agreement for the provision of services to Company.

Section 4: Compensation and Wages.

Except as specifically stated in this Agreement, all wages, bonus payments, compensation, accrued vacation, personal leave time, and all other compensation and benefits of any kind have been paid to or waived by Employee in full and no other sums of any kind are due by Company to Employee.

Section 5: Post-Separation Information.

a. On or prior to the Separation Date, Employee shall provide to Company a list of any and all user names and passwords known by Employee for any website or service relevant to the business of Company. If Company requests a user name or password in Employee's possession following the Date of Separation, Employee shall provide it to Company within two (2) business days.

b. Dell Latitude 7490 SN C6KDNQ2 and its monitors and accessories are deemed to Employee's following the date of separation.

c. As soon as practical following the date of separation to allow time to transition purchases, Employee will surrender the Company's American Express credit card.

Section 6: Confidential Information.

Employee shall at all times protect and maintain the secrecy of Company's trade secrets and confidential information, including Company's financial information, employee lists, employee information, inventions, know-how, formulas, compilations, programs, devices, methods, techniques, and processes, that derive independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from disclosure ("Confidential Information"). Employee hereby acknowledges and agrees that all Confidential Information, whether developed by Employee or by others, shall be and is the property of Company. Employee will not use or disclose any Confidential Information of Company without Company's prior written consent, except as may be required by law. If such disclosure is legally required, Employee is responsible to immediately notify Company of such circumstances. Additionally, and without limiting the foregoing, Employee agrees not to participate in or facilitate the dissemination to the media or any other third party (i) of any confidential information concerning Company or any employee of Company, or (ii) of any damaging or defamatory information concerning Employee's experiences as an employee of Company without Company's prior written consent, except as may be required by law. Notwithstanding the foregoing, this paragraph does not apply to information which is already in the public domain through no fault of Employee. Employee will not at any time, so long as such information remains confidential or a protected trade secret, use any Confidential Information in any way that may directly or indirectly have an adverse effect upon the business of Company or any of its subsidiaries, nor will he perform any acts that would tend to reduce the proprietary value to Company of any Confidential Information.

Section 7: General Release.

In consideration of the covenants and promises made in this Agreement, Employee (on his behalf and on behalf of his heirs, personal representatives, and any other person or entity who may be entitled to make a claim on his behalf) fully and freely releases, waives and discharges Company and its subsidiaries and each of their respective employees, officers, directors and shareholders (collectively, the "Releasees"), from any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967; the Older Worker Benefit Protection Act; Employee Retirement Income Security Act of 1974; the Americans with Disabilities Act; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act, as amended; the Florida Civil Human Rights Act; the Florida Whistleblower Protection Act; and all other federal, state or local laws. Among other things, these laws prohibit discrimination in employment on the basis of sex, race, color, religion, age, national origin, sexual orientation, or disability. This waiver also includes any claims for wrongful discharge, breach of contract, infliction of emotional distress, attorneys' fees, or any other tort, common law, or contract claim, including any claim under a union collective bargaining agreement. This waiver includes claims now known to Employee, as well as all possible claims that are not now known to Employee. This paragraph does not prohibit Employee from filing an administrative complaint with a government agency or cooperating with an investigation by a government agency; however, Employee waives the right to benefit monetarily as a result of any such complaint or investigation.

Section 8: Confidentiality of Agreement; Non-Disparagement.

Company and Employee, and (to the extent possible) their respective representatives and agents, shall keep all terms and conditions of this Agreement confidential, except that the parties may disclose information as necessary to their legal advisors and tax preparers. Employee shall not make any negative or disparaging remark or comment about Company, its affiliates, divisions, branches, predecessors, successors, assigns, trustees, officers, directors, administrators, partners, agents, and former and current employees and directors. This Section shall survive Employee's separation of employment. In the event of a breach of this Section, Company may pursue any one or all of the following remedies: i) termination of this Agreement, ii) rescission of this Agreement, iii) injunctive relief to prevent further breach, iv) monetary damages, or v) any other remedy a court of competent jurisdiction determines appropriate. These remedies are cumulative to all other remedies at law or equity. In any action brought for breach of this Section, the prevailing party shall be entitled to recover reasonable attorney's fees and costs.

Section 9: Review and Right of Revocation.

In accordance with the Age Discrimination in Employment Act ("ADEA"), as amended by the Older Workers Benefit Protection Act, Employee acknowledges and agrees that:

- a. Employee has read and understands this Agreement in its entirety;
- b. Employee has been advised by this in writing to consult with an attorney concerning this Agreement before signing it and has been advised by his legal representative;
- c. Employee has been given a reasonable period of time to consider its terms before signing it, but not less than twenty-one days (21), which period may be waived;
- d. Employee has the right to revoke this Agreement in full within seven (7) calendar days of signing it by notifying, in writing, 11651 Central Parkway, #118, Jacksonville, FL 32224 Attn: Kendall Carpenter. The terms and provisions of this Agreement shall not become effective or be enforceable until such revocation period has expired;

- e. Employee executed this Agreement knowingly and voluntarily, without duress or reservation of any kind, and after having given the matter full and careful consideration; and Employee has received consideration in exchange for this Agreement.

Section 10: Restrictive Covenants. Employee acknowledges that this Agreement in no way releases or waives Employee's obligations under Section 9 – Non-Competition and Non-Solicitation of Employee's Amended and Restated Employment Agreement dated October 2, 2015 and its Amendments (the "Employment Agreement"). In consideration of Company entering into this Agreement and entering into the Independent Contractor Agreement, Employee agrees that he will abide by the terms of Section 9 for a period of one (1) year following the Separation Date. In the event that Employee breaches the terms of Section 9 of the Employment Agreement, the Company is entitled to seek any and all available remedies for such breach.

Section 11. Cooperation and Transition. Employee agrees to provide assistance to Company (including the Board of Directors and any special committees of the Board of Directors) and its counsel and accountants in transitioning his responsibilities, any financial audits or internal investigation involving securities, financial, accounting, or other matters, and in its defense of, or other participation in, any administrative, judicial, or other proceeding arising from any charge, complaint or other action which has been or may be filed relating to the period during which Employee was employed by Company.

Section 12: Agreement to Return Upon Significant Event. Both parties acknowledge that a future significant event, including but not limited to, the sale of the Company, change of control or other business opportunity, may require Employee to resume his employment with the Company (or its successor or assigns) as Chief Technology Officer or similar responsibilities. Employee agrees that if a significant event occurs while he is subject to this Agreement and the parties to the significant event so desire, he will resume the status of employee on terms and conditions substantially similar to the executive employment agreement that is in effect as of the Separation Date.

Section 13: Miscellaneous.

a. This Agreement represents the entire agreement of the parties. There are no oral promises, representations or agreements outside the express agreements set forth in writing in this Agreement.

b. This Agreement may not be amended, modified or changed in any way except by written document executed by each of the parties to this Agreement.

c. The parties to this Agreement intend that this Agreement is an accord and satisfaction of all pending disputes between them.

d. The parties agree that this Agreement shall not be construed for or against any party hereto because that party drafted all or part of this Agreement.

e. Each party to this Agreement acknowledges that he or she had adequate opportunity to read and understand this Agreement in full.

f. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida without giving any effect or consideration and excluding Florida's conflict of laws provisions.

Section 13: Severability.

In the event a court of competent jurisdiction determines that any part or provision of this Agreement is unenforceable, all remaining provisions and parts of this Agreement shall remain in full force and effect and shall be fully enforceable.

Section 14. WAIVER OF JURY TRIAL. THE PARTIES TO THIS AGREEMENT KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED ON THIS AGREEMENT OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, THE EMPLOYMENT RELATIONSHIP, OR ACTIONS OR INACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES TO ENTER INTO THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of March 21, 2019.

Kevin Hess

Drone Aviation Holding Corp.

By: _____

Name: Jay H. Nussbaum

Title: Chairman and CEO

INDEPENDENT CONTRACTOR AGREEMENT

This Agreement is entered into on March 21, 2019, between Drone Aviation Holding Corp. (dba Drone Aviation Corp. and Lighter Than Air Systems) (“the Company”), a Nevada corporation located at 11651 Central Parkway #118, Jacksonville FL 32224 and **Cognitive Carbon Corporation** (“the Contractor”), a Florida corporation located at 916 Fiddlers Creek Rd. Ponte Vedra Beach, FL.

1. Independent Contractor. Subject to the terms and conditions of this Agreement, effective March 31, 2019, the Company hereby engages the Contractor and its employees as an independent contractor to perform the services set forth on exhibits attached hereto (the “Services”), and the Contractor hereby accepts such engagement. Contractor’s provision of the Services under this Agreement will be of high quality consistent with best industry practices and at all times satisfactory to the Company in its discretion.
2. Duties, Term, and Compensation. The Contractor’s duties, term of engagement, compensation and provisions for payment thereof shall be as set forth in Exhibits A, B and C, which may be amended in writing from time to time and which collectively are hereby incorporated by reference. The Agreement must be in full force and effect to receive earned compensation. Contractor will not receive any insurance, retirement, or other such employment-related financial benefits from Company.
3. Expenses. During the term of this Agreement, Company will reimburse Contractor for reasonable and necessary out-of-pocket expenses incurred by Contractor in completing the Services. Travel, lodging and transportation expenses will be reimbursed pursuant to the Company’s current Travel Expense Policy, as amended from time to time. Company will reimburse Contractor promptly after Contractor submits a monthly expense report and relevant receipts to Company. Notwithstanding the forgoing, Company reserves the right at any time, in its sole discretion, to require Contractor to obtain the prior written approval of the Company for any (or all) expenditures for which Contractor plans to request reimbursement.
4. Confidentiality. The Contractor acknowledges that during the engagement they may have access to and become acquainted with various trade secrets, inventions, innovations, processes, information, records and specifications owned or licensed by the Company and/or used by the Company in connection with the operation of its business including, without limitation, the Company’s business and product processes, methods, customer lists, accounts and procedures. The Contractor agrees that they will not disclose any of the aforesaid, directly or indirectly, or use any of them in any manner, either during the term of this Agreement or at any time thereafter, except as required in the course of this engagement with the Company. All files, records, documents, blueprints, specifications, information, letters, notes, media lists, original artwork/creative, notebooks, and similar items relating to the business of the Company, whether prepared by the Contractor or otherwise coming into his possession, shall remain the exclusive property of the Company. The Contractor shall not retain any copies of the foregoing without the Company’s prior written permission. Contractor acknowledges that by the nature of its relationship with Company and pursuant to this Agreement, Contractor will have access to and will have knowledge of material non-public information related to Company as such term is defined by the Securities Act of 1933, as amended. Contractor hereby agrees and covenants that it will not make any purchases, sales or other transactions in the securities of Company based on any material non-public information. This obligation shall survive the termination of this Agreement.

5. Agreement Not to Compete. During the term of this Agreement, and for one (1) year afterward, Contractor will not compete with the business of the Company or its successors and assigns. Contractor will not directly or indirectly, as an owner, officer, director, employee, independent contractor, Contractor, representative, or in any other capacity, engage in activities competitive to the Company in the business of RC Lighter-than-air ships, Aerial Photography Systems, Aerial Surveillance Systems, Mast surveillance systems, and Tethered Aerial Platforms/Drones or in a business substantially similar to the present business of the Company, or such other business activity in which the Company may substantially engage while contracted by the Company.

In particular, Contractor will not:

- a) solicit or attempt to solicit any business or trade from the Company's actual or prospective customers or clients on behalf of himself or any other person, firm, partnership, corporation or other entity competitive to the Company;
- b) solicit or attempt to solicit any existing Company employee for the purpose of said employee leaving the Company's employment and working for any customer or competitor; or
- c) induce or encourage any independent contractor or Contractor performing services for the Company to sever his or her relationship with the Company.

Contractor acknowledges that the Company may notify Contractor's future or prospective employers or any third party of the existence of this agreement. Contractor acknowledges and agrees that the restrictions imposed by this agreement are fair and reasonably required for the protection of the Company and will not preclude Contractor from becoming gainfully employed following the termination, for any reason, of its engagement with the Company.

6. Work for Hire

Contractor agrees that Company shall be the sole owner of all Work Product (as defined below) as a "work for hire" under this Agreement. For this purpose, "Work Product" shall mean all intellectual property rights, including all trade secrets, U.S. and international copyrights, patentable inventions, improvements, discoveries, and other intellectual property rights in any programming, documentation, technology, or other Work Product that is created in connection with its Work. "Work" shall mean (i) any direct assignments and required performance by or for Company, and (ii) any other productive output that relates to the business of Company and is produced during Contractor's employment or engagement by Company. For this purpose, "Work" may be considered present even after normal working hours, away from Company's premises, on an unsupervised basis, alone or with others.

To the extent that applicable law does not permit ownership of any particular Work Product to be automatically transferred to Company, Contractor shall and hereby does assign, convey and otherwise transfer to Company, without any requirement of consideration, all right, title and interest Contractor may have in and to such Work Product and to the exploitation of such Work Product in media now known or hereafter created. Upon request of Company, Contractor shall take such further actions, including execution and delivery of any documents, as may be necessary or appropriate to give full and proper effect to such assignment. Contractor agrees, at the Company's cost and expense, to assign any inventions or discoveries to the Company and to cooperate with the Company in obtaining suitable patent and/or trademark protection which will be solely owned by the Company and may have Contractor as original named inventor.

7. Conflicts of Interest. The Contractor represents that it is free to enter into this Agreement, and that this engagement does not violate the terms of any agreement between the Contractor and any third party.
8. Independent Contractor. This Agreement shall not render the Contractor an employee, partner, agent of, or joint venturer with the Company for any purpose. In its capacity as an independent contractor, Contractor agrees and represents, and Company agrees, as follows: Contractor has the right to perform services for others during the term of this Agreement; Contractor has the sole right to control and direct the means, manner and method by which the services required by this Agreement will be performed; Company shall not provide any insurance coverage of any kind for Contractor; and Company shall not withhold from Contractor's compensation any amount that would normally be withheld from an employee's pay. Contractor assumes full responsibility for payment of all taxes, including federal, state and local taxes, arising out of Contractor's activities under this Agreement. Contractor expressly releases Company from any liability arising from Company's failure to withhold such taxes, and Contractor shall indemnify, defend and hold Company harmless from all liability it may incur as a result of any such failure. The Contractor shall have no claim against the Company hereunder or otherwise for vacation pay, sick leave, retirement benefits, social security, worker's compensation, health or disability benefits, unemployment insurance benefits, or employee benefits of any kind.

9. Notices. Any and all notices, demands, or other communications required or desired to be given hereunder by any party shall be in writing and shall be validly given or made to another party if personally served, or if deposited in the United States mail, certified or registered, postage prepaid, return receipt requested. If such notice or demand is served personally, notice shall be deemed constructively made at the time of such personal service. If such notice, demand or other communication is given by mail, such notice shall be conclusively deemed given five days after deposit thereof in the United States mail addressed to the party to whom such notice, demand or other communication is to be given as follows:

If to the Contractor: Cognitive Carbon Corporation
 Attn: Kevin Hess
 916 Fiddlers Creek Rd.
 Ponte Vedra Beach, FL 32082

If to the Company: Drone Aviation Holding Corp
 Attn: President
 11651 Central Parkway #118
 Jacksonville FL 32224

Any party hereto may change its address for purposes of this paragraph by written notice given in the manner provided above.

10. Modification or Amendment. No amendment, change, or modification of this Agreement shall be valid unless in writing signed by the parties hereto.
11. Entire Understanding. This document and any exhibit attached constitute the entire understanding and agreement of the parties with regard to the Services to be provided hereunder, and any and all prior agreements, understandings, and representations are hereby terminated and canceled in their entirety and are of no further force and effect.
12. Unenforceability of Provisions. If any provision of this Agreement, or any portion thereof, is held to be invalid and unenforceable, then the remainder of this Agreement shall nevertheless remain in full force and effect.
13. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of State of Florida applicable to contracts executed and wholly performed within such jurisdiction, without regard to its internal choice of law analysis. Any dispute arising hereunder shall be referred to and heard only in an appropriate court of competent jurisdiction in Duval County, Florida.
14. Warranties. Contractor warrants and represents that: (a) the services shall be performed in accordance with description set forth in the applicable statement of work; (b) that the Work Product will operate in accordance with and will conform with the description of such Work Product found in the applicable statement of work; (c) the services or work product shall not infringe upon or constitute a misuse any copyright, patent, trade secret or other proprietary rights; (d) Contractor has the authority to enter into this Agreement and to perform all obligations hereunder, including, but not limited to, the grant of rights and licenses to the Work Product and all proprietary rights therein or based thereon; and (e) Contractor has not granted any rights or licenses to any intellectual property or technology that would conflict with Contractor's obligations under this Agreement.

15. Indemnification. Contractor will indemnify and hold harmless the Company and its affiliates, directors, officers, employees, agents, and representatives against any and all suits, losses, claims, damages, liabilities, costs and expenses (including reasonable attorneys' fees and other costs of defending any action) which such parties may sustain or incur in connection with (a) a breach of any representation, warranty, or undertaking made by Contractor in performance of this Agreement or such parties' enforcement of this Agreement, (b) any suit, claim or demand based upon any legal theory, including, without limitation, negligence, breach of warranty or strict liability in tort in connection with the services performed or provided hereunder, except to the extent caused by the sole negligence or intentional acts of Company, or (c) Contractor's failure to comply with any applicable laws, codes, regulations, ordinances or statutory requirements of any authority having jurisdiction over the Agreement or the services.
16. Insurance. Contractor shall carry the following minimum insurance coverages in a form acceptable to Company at all times while this Agreement is in effect: (i) Comprehensive Liability Insurance with coverage limits of at least \$250,000 per occurrence for any and all injury, death or property damage, (ii) Workers compensation insurance as required by law; (iii) Personal and advertising injury insurance in an amount not less than \$250,000; and (iv) errors and omissions with coverage limits of at least \$250,000. On an annual basis, Contractor shall provide Company with a copy of the applicable insurance binder or declarations page for each such policy. Neither the existence of nor the assent of Company to the types of limits of insurance carried by Contractor shall be deemed a waiver or release of responsibility under this Agreement.
17. Sub-Contractors. Contractor may hire or engage one or more subcontractors to perform any or all of its obligations under this Agreement; provided that with regard to any Services provided by a sub-contractor, Contractor shall in all cases remain responsible for all of its obligations under this Agreement with respect to the scope of the Services, any representations and warranties provided hereunder, and all indemnification obligations hereunder.
18. Compliance. Contractor shall obtain all federal, state and local licenses and permits required for provision of the Services and shall be responsible for all sales, use, excise, state and local business and income taxes attributable to the Services (including remittance thereof to the appropriate authorities). Any penalties, financial or otherwise, imposed due to Contractor's acts or omissions in providing the Services will be paid by or be the responsibility of Contractor.
19. Independent Review. Contractor affirms that he has carefully read this entire Agreement. He attests that he possesses sufficient information, knowledge, understanding and experience to fully understand the extent and impact of its provisions. Contractor affirms that he has been advised to consult the attorney of his choice about this Agreement, and that by signing this Agreement he acknowledges that he has obtained whatever legal advice he deemed appropriate. Contractor affirms that he is fully competent to execute this Agreement and that he does so voluntarily and without any coercion, undue influence, threat or intimidation of any kind.

IN WITNESS WHEREOF the undersigned have executed this Agreement as of the day and year first written above. The parties hereto agree that facsimile signatures shall be as effective as if originals.

Drone Aviation Holding Corp.

Cognitive Carbon Corporation

By: _____
Kendall Carpenter, EVP and CFO

By: _____
Kevin Hess, CTO
FEIN:
Phone Number 904-540-0150
Email: khess@cognitivecarbon.com

EXHIBIT A

**STATEMENT OF WORK, TERM, AND COMPENSATION
CTO SERVICES
SALES AND MARKETING SERVICES**

DUTIES: The Contractor will provide outsourced Company CTO services, and sales and marketing services.

DELIVERABLES:

CTO services include, but are not limited to: provide technology and manufacturing direction to Drone Aviation staff and 3rd party contractors, vendor management, facilities management, Drone Aviation customer meetings, establish and maintain partner relationships related to technologies that enable or improve Drone Aviation products, creation and assistance with patents or other intellectual property. Additionally, new product development, enhancements to existing products and determination of pricing, and occasional investor-related meetings if requested.

Sales and marketing services include, but are not limited to: customer and partner meetings, strategy development and go-to-market program for products and systems, promotion of Drone Aviation products and services, closing of sales with end-customers, channel partners and prime contractors.

TERM: The initial term of this Exhibit A shall be one year commencing March 31, 2019 with automatic twelve (12) month renewals thereafter unless Drone notifies its intent not to renew within 30 days of renewal. Either party may terminate upon written notice of material breach by the other party that is not cured within 15 days from the date of notice.

COMPENSATION:

Contractor shall submit detailed monthly invoices by the 3rd day of the subsequent month. Approved invoices will be paid within 15 days.

As full compensation for the services rendered pursuant to this Agreement, the Company shall pay the Contractor:

CTO Services; monthly \$19,750

BONUSES:

Pursuant to Annual Board Approved Compensation Plan (Exhibit B)

Drone Aviation Holding Corp.

Cognitive Carbon Corporation

By: _____

Kendall Carpenter, EVP and CFO

Date: _____

By: _____

Kevin Hess, CTO

Date: _____

EXHIBIT B
COMPENSATION PLAN
CTO SERVICES
SALES AND MARKETING SERVICES

2019 MANAGEMENT BONUS PLAN

Kevin

BONUS BASED ON NAMED ACCOUNTS:

DOD

2019 recognized revenue from invoiced goods and services sold to named account. Target is \$5,000,000 for full bonus of \$175,000.
 Min Bonus: First \$2,000,000 in bookings bonus is \$70,000. Second \$2,000,000 in booking bonus is \$70,000. Then prorate target/bonus from \$4M to \$5M for full 100%.
 SuperBonus: For every Pct above target, bonus will increase by same Pct, capped at 150% of full bonus (\$262,500).

\$ 175,000

Note #1 - Board may consider additional bonus, at its discretion, if cap is hit
Note #2 - At end of month, determine bookings. When first \$2,000,000 is achieved, accrue \$70,000 bonus with \$35,000 paid as soon as practicable and \$35,000 paid when customer settles their invoice. Repeat process for second \$2,000,000.

BONUS BASED ON RESULTS

2019 successful manufacturing and delivery. Target is \$3.8M for CBP and \$2.0M for SFAB/Army for full 100% bonus, all-or-nothing

\$ 125,000

Note #3 - At end of 2019, determine if target has been achieved. If so, calculate and accrue earned bonus and pay out at the end of 2019.

FULL TARGET BONUS

\$ 300,000

EXHIBIT C

**STATEMENT OF WORK, TERM, AND BASE COMPENSATION
SOFTWARE AND PLATFORM DEVELOPMENT SERVICES**

DUTIES: The Contractor will provide outsourced software and platform development

DELIVERABLES: Software and Platform Development are defined as; Flight Management System and Ground Control Station development and support. Scope of the FMS includes up to 12 sensors, establishing and maintaining the cloud computing environment, operator and FSR management notifications and alerts and 3-4 UX screens.

Reporting dashboard: System monitoring, alerts, reports for uptime, flight hours, weather reported by local station and METARs

SOW: Cognitive Carbon Corporation will provide resources necessary for each stage of the project.

Phase One: architecture definition; a) establish AWS tools and environment necessary to provide sensor aggregation persistence, calculations, notifications and reporting, b) establish the launcher/local architecture for sensor aggregation and persistence that provides LTE and Satellite transfer of full data sets and control codes, c) determine local data transfer protocols and methods, adhering to IoT standards and best practices where appropriate.

Resources: BA, Tech lead, Platform architect

Phase Two: development of local and cloud environments to support requirements

Resources: BA, Tech lead, 2 developers (html5, .NET), data architect

Phase Three: development of user experience UI (dashboard, agent operating screens), implementation of notifications and alerts, implementation of business rules for standardized UOMs, launcher and main component serialization nomenclature.

Resources: BA, Tech lead, 2 developers (html5, .NET), data architect, QA

Phase Four: Maintenance of the cloud computing environment, break/fix of software defects, software enhancements that can be accommodated by support resources.

TERM: March __, 2019 through the date of final approval of deliverables to be provided hereunder. Company may terminate this Exhibit B on thirty days written notice provided that Company shall pay amounts owed and approved prior to the date of termination.

COMPENSATION: Contractor shall submit detailed monthly invoices by the 3rd day of the subsequent month. Approved invoices will be paid within 15 days.

As full compensation for the services rendered pursuant to this Agreement, the Company shall pay the Contractor:

Software and Platform Development; as incurred, provided that the maximum amount due under this Exhibit B is \$120,000.

EXHIBIT C

**STATEMENT OF WORK, TERM, AND BASE COMPENSATION
SOFTWARE AND PLATFORM DEVELOPMENT SERVICES**

Signature Page

Drone Aviation Holding Corp.

By: _____
Kendall Carpenter, EVP and CFO
Date: _____

Cognitive Carbon Corporation

By: _____
Kevin Hess, CTO
Date: _____

Confidential

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SUBSIDIARIES

Drone Aviation Holding Corp., a Nevada corporation, had the domestic and international subsidiaries shown below as of March 22, 2019.

Name of Subsidiary	Jurisdiction Where Incorporated
Lighter Than Air Systems Corporation	Florida
Drone AFS Corp.	Nevada

CERTIFICATION

I, Jay Nussbaum, certify that:

1. I have reviewed this Annual Report on Form 10-K of Drone Aviation Holding 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. The registrant's other certifying officer(s) and I are 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 Rule 13a-15 (f) and 15 (d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over the financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jay Nussbaum

Chief Executive Officer
(Principal Executive Officer)

Date: March 22, 2019

CERTIFICATION

I, Kendall Carpenter, certify that:

1. I have reviewed this Annual Report on Form 10-K of Drone Aviation Holding 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. The registrant's other certifying officer(s) and I are 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 Rule 13a-15 (f) and 15 (d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over the financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kendall Carpenter

Chief Financial Officer
(Principal Financial Officer)

Date: March 22, 2019

Certification
Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002
(Subsections (A) And (B) Of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Drone Aviation Holding Corp. (the "Company"), does hereby certify, that:

The Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jay Nussbaum

Chief Executive Officer
(Principal Executive Officer)

Dated: March 22, 2019

/s/ Kendall Carpenter

Chief Financial Officer
(Principal Financial Officer)

Dated: March 22, 2019