

VIEW SYSTEMS INC  
Form 10-K  
April 01, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **December 31, 2012**

OR

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

**VIEW SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

Nevada 59-2928366  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1550 Caton Center Drive, Suite E, Baltimore, Maryland 21227  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(410) 242-8439**

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

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$0.001 Par Value**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] YES [x] NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] YES [x] NO

**Note** – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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. [x] YES [ ] NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [x] YES [ ] NO

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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 registrant's knowledge, in a definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  YES  NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

**Note.** If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

**The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of June 30, 2012 was \$3,529,564.32.**

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  YES  NO

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 182,421,178 **shares of common stock are outstanding as of March 28, 2013.**

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). **None**

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## **Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995**

Information included in this Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). This information may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of View Systems, Inc. (the “Company”), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” or “project” or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

## **PART I**

### **ITEM 1. BUSINESS.**

In this report, unless the context requires otherwise, references to the "Company", "View Systems", "we", "us" and "our" are to View Systems, Inc.

## **CORPORATE HISTORY**

View Systems was incorporated in Florida on January 25, 1989, as Beneficial Investment Group, Inc. and became active in September 1998 when we began development of our digital video product line and changed the company's name to View Systems, Inc. Starting in 1999 we expanded our business operations through a series of acquisitions of technologies we use in our digital video recorder technology products and in our concealed weapons technology.

On July 25, 2003, View Systems incorporated View Systems, Inc. as a wholly-owned Nevada corporation for the sole purpose of changing the domicile of the company from Florida to Nevada. On July 31, 2003, articles of merger were filed with the states of Florida and Nevada to complete the domicile change.

## **OUR BUSINESS**

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. In 1998 digital video recorder technology was our first developed product and we enhanced this product line by developing interfaces with other various technologies, such as facial recognition, access control cards and control devices such as magnetic locks, alarms and other common security devices. In 2003 we sold this product to various commercial entities including schools, restaurants, night clubs, car washers and car dealers (license plate recognition was incorporated into these types of installations), ranches and gas stations. In these installations we integrated the digital video recorded technology with other electronic devices, and we gained knowledge of the security needs of a wide range of businesses.

We expanded our product line in 2002 to include a concealed weapons detection system we call ViewScan. We have penetrated four major market segments for this product: correctional facilities, judicial facilities, probation offices and federal facilities in the Mid-Atlantic States, the West Coast and the South. In 2003 we added a hazardous material first response wireless video transmitting system to our product line we refer to as Visual First Responder. The markets for these units are first responder units for agencies such as the

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National Guard, Coast Guard, Army, state law enforcement agencies, and fire departments. Both of these technologies were licensed from the U.S. Department of Energy's Idaho National Engineering Laboratory ("INEL"). Until 2005 we assembled all of our products in-house, but we currently contract with third party manufacturers to manufacture some components of our products.

Historically, the Company relied upon exclusive technology licensing agreements with federal departments to license and distribute the ViewScan technology. In anticipation of the expiration of federal licenses, we developed propriety components and made sufficient engineering design changes to the ViewScan product to lower production costs and to accommodate the price points required by competitive pressures. By redesigning the ViewScan, we offset the impact of the expiration of our license agreements and continued to capitalize on the competitive advantage we had in the markets we had entered. We have a similar strategy for the Visual First Responder, which is now in its third generation.

### **Asset Purchase Agreement**

On June 1, 2012, we entered into an asset purchase agreement (the "Asset Purchase Agreement"), with Essential Security Group of Toledo Ohio ("ESG"). In accordance with the terms and provisions of the Asset Purchase Agreement, we agreed to purchase all assets and liabilities of ESG for payment of 2,000,000 shares of our restricted common stock to ESG's two principal shareholders. One million shares were required to be issued at closing (500,000 shares each to John P. Rademaker and David Loyer), and the remaining 1,000,000 shares (500,000 shares each to Messrs. Rademaker and Loyer) were required to be issued upon ESG's attainment of certain performance goals. ESG is an installer of our ViewScan units.

On June 28, 2012, we executed an amendment to the Asset Purchase Agreement with ESG (the "Amendment to Asset Purchase Agreement"). In accordance with the terms and provisions of the Amendment to Asset Purchase Agreement, a floating closing date was imposed subject to completion of ESG's delivery of required pre-closing items and our completion of our due diligence inquiries. The Amendment to Asset Purchase Agreement further required ESG to obtain an audit of its financial statements and an audit opinion satisfactory to us.

In or about September 2012, during our due diligence inquiry, we determined not to go forward with the transaction as proposed. The 2,000,000 shares of common stock required to be issued by us were not issued.

### **PRODUCTS AND SERVICES**

Our current principal products and services include:

**ViewScan Concealed Weapons Detection System**

ViewScan, which is also sold under the name "Secure Scan", is a walk-through concealed weapons detector which uses data sensing technology to accurately pinpoint the location, size and number of concealed weapons. This walk-through portal is controlled by a master processing board and a personal computer based unit which receives magnetic and video information and combines it in a manner that allows the suspected location of the weapon to be stored electronically and referenced. Because ViewScan does not produce a graphic anatomical display of a scanned person, the Company does not believe that ViewScan is susceptible to privacy concerns raised about certain personnel scanners produced by other companies.

ViewScan products are distributed in three basic configurations; stand-alone units, portable units and integrated door systems.

While electromagnetic induction systems of the type described above have been used for decades as concealed weapons detection systems, they are not without their problems. For example, such electromagnetic induction systems are generally sensitive to the overall size, i.e., surface area of the object, including its mass. Consequently, small, compact, but massive objects, such as a small pistol, may not produce a "signature" that is significantly larger than the signature produced by a light weight object of the

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same or greater size, such as a cell phone or compact camera. Another problem associated with electromagnetic induction systems is related to the fact that electromagnetic systems are sensitive to electrically conductive objects, regardless of whether they are magnetic or non-magnetic. That is, electromagnetic systems tend to detect non-magnetic objects, such as pocket change, just as easily as magnetic objects, such as weapons. Consequently, electromagnetic systems tend to be prone to false alarms. In many circumstances, such false alarms need to be resolved by scanning the suspect with a hand-held detector in order to confirm or deny the presence of a dangerous weapon.

ViewScan is designed to overcome the traditional shortcomings of electromagnetic induction scanners. The ViewScan portal uses an array of advanced magnetic sensors, each with internal digital signal processors. The sensors communicate with the control unit's software which spatially places identified magnetic anomalies and visually places the location of the potential threat object with a red dot that is superimposed over a real time snapshot image of the person walking through the portal. Along with the snapshot, a graph displays the sensor data which automatically scales the signal strength of the individual sensors and cross-references them to the video image. All of this information is brought together on a video screen that displays the image of the person, the location of the weapon(s) and the size of the weapon(s), depending on the intensity of the magnetic signature. The visual image allows the operator to determine what the object is without the need to conduct a personal search to locate the object and look at it.

The ViewScan system operates faster than ordinary metal detectors and can scan as high as 1,200 persons per hour. Since the ViewScan technology does not use transmitters to produce electromagnetic induction, it does not pose a problem for pacemakers. The ViewScan self calibrates and does not need operator intervention or special calibration tools.

In 2004 we introduced the ViewScan product to the venue and stadium market. In February 2005 we tested the ViewScan at the pre-game venues of the Super Bowl football game in Jacksonville, Florida. During that installation, the portal scanned up to 3,000 to 4,000 people and at various times throughput ranged from approximately 600 to 1,200 persons per hour.

During 2005 we contracted with the University of Northern Florida to design new sensor boards for the ViewScan product which has allowed us to reduce the installed sensor cost by a factor of four. The new lower costs allow us to offer price points to the market which compete directly with traditional metal detectors.

In February 2006 we demonstrated a ViewScan product with a precision optical biometric fingerprint terminal. As expected, the demand for biometric interfaces has increased significantly. In addition to verifying that an individual is not carrying guns, knives and sometimes cameras, the units can perform multi-modal double and triple identity checks, including: fingerprint, facial, iris, driver's license and employee identification card verification.

Today we sell these units for an average retail price of approximately \$9,000 with a one year extended warranty. We feel the new reduced price points and enhanced interface abilities will allow us to be more competitive, along with the advantages of three to four times the throughput rate, non-contact imaging and permanent visual storage, and a log of all individuals scanned. We have been making additional cost reductions through economies of scale and larger scale integration by taking advantage of ongoing computer component improvements.

### **3D Facial Recognition Technology - Animetrics Inc.**

On August 9, 2012, the Company entered into a partnership with Animetrics Inc. ("Animetrics"), a leading developer of advanced 3D facial recognition and identify management solutions (the "Animetrics Agreement"). In accordance with the terms and provisions of the Animetrics Agreement, the Company will integrate Animetrics' next-generation 3D facial recognition technology into its concealed weapons detection systems used for security screening at correctional facilities, stadiums, courthouses, schools and other public facilities. The Company's ViewScan Concealed Weapons Detector is a walk-through portal which uses advanced magnetics technology to accurately pinpoint threat objects on a visual image of the

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subject. The system is sensitive enough to locate items such as hidden razor blades and cellular phones but will ignore common objects such as coins, keys and belt buckles. The initial objective is to integrate Animetrics' facial identify management software, the FaceR identity management solution (FIMS) onto the Company's ViewScan, incorporating next generation facial recognition and investigative face biometric capabilities into the weapons detection and identification system. The Company also plans to utilize Animetrics' cloud-based FaceR FIMS and its suite of FaceR facial biometric identify and screening applications, including FaceR Mobile ID, FaceR Credential Me and ForensicaGPS across its entire portfolio of security and surveillance systems and applications.

The FIMS is deployed either via Web server or in a cloud-based architecture system. Both configurations provide centralized and scalable management of highly distributed "one-to-many" identity searched in the field. FIMS utilized Animetrics' FACEngine biometric facial recognition technology that converts 2D images to accurate 3D geometrics for enhanced biometric templates. FIMS makes these 3D facial "signatures" for identification purposes available to credentialed users via any mobile or fixed digital device with internet connectivity. This powerful combination with the ViewScan delivers most advanced facial-recognition and comparison technology to personnel in the field providing accurate and fast results.

### **National Security Resources**

On February 9, 2012, the Company entered into a partnership (the "Partnership") with National Security Resources, Inc., a facial recognition company ("National Security Resources"). In accordance with the Partnership, the Company and National Security Resources will work together to develop and deliver an integrated solution for a combined technology line. The Company intends to integrate National Security Resources' advanced "scan and match facial recognition" ability into the Company's concealed weapons detection ViewScan.

### **Multi-Mission Mobil Video**

The Multi-Mission Mobil Video (MMV) is a lightweight, wireless camera system housed in a tough, waterproof body. The camera system sends back real-time images to a computer or video monitor at the command post located outside the exclusion zone or containment area. The MMV is able to transmit high quality video in the most difficult environments. The image is received from the MMV and displayed on a monitor and can be easily recorded using a common camcorder or VCR with video input. The camera can be completely submerged for fast and easy decontamination.

The MMV also uses an Extension Link which is a separate transmitter and receiving system that increases the operating range of the MMV. The Extension Link has field-selectable channels to avoid interference at longer

distances. We have also incorporated a video encryption feature that allows first responders to transmit on-scene video to the command post without the data being intercepted by unwanted parties.

The complete MMV is fully deployed by one person in a stand-alone configuration in less than 10 minutes. The system is battery operated and can operate for eight continuous hours using one set of spare camera batteries. We sell this base product for approximately \$9,000 retail, but the cost can be as high as \$18,500 depending on additional special features such as the extension link and encryption capabilities.

This product allows hands-free operation of the unit because it allows the person to wear the unit with a helmet mounted monacle.

### **ViewMaxx Digital Video System**

ViewMaxx is a high-resolution, digital video recording and real-time monitoring system. This system can be scaled to meet a specific customer's needs by using anywhere from one camera up to 32 surveillance cameras per each ViewMaxx unit. The system uses a video capture card recording which translates closed-circuit television analog video data (a format normally used by broadcasters for national television programs) to a computer readable digital format to be stored on direct access digital disk devices rather than the conventional television format of video tape.

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ViewMaxx offers programmable recording features that can eliminate the unnecessary storage of non-critical image data. This ability allows the user to utilize the digital disk storage more efficiently. The ViewMaxx system can be programmed to satisfy each customer's special requirements, be it coverage which is continuous, or only when events are detected. For example, it can be programmed to begin recording when motion is detected in a surveillance area, or a smaller field of interest within the surveillance area, and can be programmed to notify the user with an alarm or message.

Viewing of the stored digital images can be performed locally on the computer's video display unit or remotely through the customer's existing telecom systems or data network. It also uses a multi-mode search tool to quickly play back files with simple point and click operations. The search mode parameters can be set according to a specific monitoring need, such as: certain times of day, selected areas of interest in the field of view or breaches of limit areas. These features and abilities avoid the need to review an entire, or many, VCR tapes for a critical event.

Our ViewMaxx products include the following features:

- Use any and all forms of telecommunications, such as standard telephone lines;
- Video can be monitored 24 hours a day by a security monitoring center;
- Local and remote recording, storage and playback for up to 28 days, with optional additional storage capability;
- The system may be set to automatically review an area in a desired camera sequence;
- Stores the video image according to time or a criteria specified by the customer and retrieves the visual data selectively in a manner that the customer considers valuable or desirable;
- The system may trigger programmed responses to events detected in a surveillance area, such as break-ins or other unauthorized breaches of the secured area;
- Cameras can be concealed in ordinary home devices such as smoke detectors;
- The system monitors itself to insure system functionality with alert messages in the event of covert or natural interruption; and
- Modular expansion system configuration allows the user to purchase add-on components at a later date.

Depending on the features of a particular system the retail price including installation can range from approximately \$5,000 up to \$50,000.

#### **Additional Applications and Integration of ViewScan and ViewMaxx**

We also offer integration of other products with ViewScan or ViewMaxx. Biometric verification is a system for recognizing faces and comparing them to known individuals, such as employees or individuals wanted by law enforcement agencies. This product can be interfaced with ViewScan and/or ViewMaxx to limit individual access to an area. ViewScan and/or ViewMaxx can be coupled with magnetic door locks to restrict access to a particular area. We also offer a central monitoring or video command center for ViewScan or ViewMaxx products.

### **The MINI**

The MINI (Mobile Intelligent Network Informer) is a portable, wireless watchdog communication device that checks for intrusion into uninhabited areas such as foreclosed houses, storage spaces and vacation

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homes. The MINI senses motion and sends text messages to a user's cell phone. Property and remote assets may be guarded by this innovative device that requires no plug-in electricity, no physical phone line and no monitoring service. The MINI runs on batteries and one configuration of the system can even send a photo of the intruder to the user's cell phone. Camera settings can be controlled and changed via SMS commands.

We license the MINI from its manufacturer and act as a distributor. The Company established a dedicated e-commerce platform for the direct sale of this innovative product, which went online in February 2010. We are marketing the MINI to large potential users, such as real property managers, as well as retail customers through the [www.minicamsim.com](http://www.minicamsim.com) website. We have had non-material amounts of revenue from MINI sales thus far, which we attribute to a lack of advertising funds and market awareness.

### **Network Services**

View Systems Inc. Network Services group supplied integrated electronic security and control systems for commercial and industrial applications throughout the Mid Atlantic area.

In approximately March 2011, we elected to discontinue our Network Services group. We did not secure any jobs during the summer high season because the minimum amount of work we needed to be profitable was not available to us. We did not earn any revenue from this division, but we continued to have overhead deriving from lease obligation on two motor vehicles that supported this division. In August 2011 we sold one vehicle at a gain of \$338 and continue to make payments on a second vehicle. Between March 2009 when we entered the fiber optic cable installation business and our exit in March, 2011, our revenues attributed to this division were approximately \$200,000 while our accumulated costs which are ongoing were \$0 at the end of the reporting period.

### **FiberXpress, Inc.**

On July 24, 2009 we entered into an asset purchase agreement to acquire FiberXpress, Inc., a company that sells specialist data network related products through its Internet web site. The transaction closed on September 15, 2009 with an exchange of stock and the hiring of William Paul Price. The acquisition has not been material to our financial statements. The FiberXpress acquisition has not resulted in meaningful sales, and we are looking for suitable options.

### **Visisys Ltd.**

The Company's partnership with Visisys, Ltd. has been terminated. There were no sales in either 2011 or 2010 from this partnership, but the termination of the partnership did not impact our balance sheet materially. We believe that Visisys, Ltd. has gone out of business.

## **TRAINING AND SERVICE PROGRAMS**

We offer support services for our products which include:

On site consulting/planning with customer architect and engineers,  
Installation and technical support,  
Training and "Train the Trainer" programs, and  
Extended service agreements.

## **OUR MARKET**

Our family of products offers government and law enforcement agencies, commercial security professionals, private businesses and residential consumers an enhanced surveillance and detection capacity. Management has chosen to avoid the air passenger traffic and civilian airport market for metal

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detection because we believe that a larger market exists in venues such as sporting events, concerts, race tracks, schools, courthouses, municipal buildings, and law enforcement agencies.

Our ViewScan products and technology can be used where there is a temporary requirement for real-time weapons detection devices in areas where a permanent installation is cost prohibitive or impractical. For example, our ViewScan portal could be set up for special events, concerts, and conventions. Our systems may reduce the need for a large guard force and can provide improved pedestrian traffic flow into an event because individuals can be scanned quickly and false alarms are reduced.

A primary market for our ViewScan portal is federal and state government courthouses, county and municipal buildings, and correctional facilities. We have installed our ViewScan weapons detection products in a variety of court house situations.

The MMV product's market includes National Guard units and first response agencies such as fire, police, SWAT, and homeland security response teams.

The MINI is an easy to use, simple and convenient personal security monitoring device that can be purchased by individuals through an independent website, potentially through retail electronics stores, or through commercial installers of self-contained or centrally monitored security systems. However, at this time we do not have retail agreements in place. Using our technology, individuals could run their own perimeter and interior surveillance systems from their own home computer. Real-time action at home can be monitored remotely through a modem and the Internet. There is also the capability to make real-time monitors wireless. An additional advantage of our technology is that it allows for the storage of information on the home computer and does not require a VCR. This capability may reduce the expense and time of the home installation and may make installation affordable for a majority of homeowners. We are marketing the MINI to large potential users, such as real property managers, as well as retail customers through the [www.minicamsim.com](http://www.minicamsim.com) website. We have had non-material amounts of revenue from MINI sales thus far, which we attribute to a lack of advertising funds and market awareness.

In March, 2011, we exited the fiber optic installation network and terminated our Network Services Division.

## **MANUFACTURING**

We manufacture the ViewScan portal and the ViewMaxx internally at our facilities in Baltimore, Maryland. Our third party manufacturers create several of the hardware components in our systems and we assemble our systems by combining other commercially available hardware and software together with our proprietary software. We hold licenses for software components that are integrated into our proprietary software and installed in our systems. We believe that we can continue to obtain components for our systems at reasonable prices from a variety of sources. Although we have developed certain proprietary hardware components for use in our products and purchased some components from single source suppliers, we believe similar components can be obtained from alternative suppliers without significant delay.

## **SALES AND DISTRIBUTION**

We are constantly seeking to extend our United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products. We are looking for security consultants, specifiers and distributors of security and surveillance equipment that sell directly to schools, courthouses, and government and commercial buildings.

We use mailings and telephone calls to contact potential representatives in a geographical area with the intent to arrange a demonstration of our products to these persons. We attend region specific trade shows such as sheriff's conventions, court administrators meetings, civil support team, and state police shows. Then we demonstrate or give trial offers in the area until a sale is completed. Once we have completed a sale in a specific market area, then we expand that market by contacting correctional facilities, courthouses

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and other municipal buildings. We ship our products to the customer and each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund.

We have ongoing reseller arrangements with small and medium-sized domestic and international resellers. Our reseller agreements grant a non-exclusive right to the reseller to purchase our products at a discount from the list price and then sell them to others. These agreements are generally for a term of one year and automatically renew for successive one-year terms unless terminated by notice or in the event of breach.

In 2010 we also have experienced international interest from security related resellers and system integrators. Previously, we had chosen not to pursue international markets, but we secured sales in Bangladesh.

Marketing of the MINI can be viral through use of Internet search engine optimization. During 2011 we did not have the financial resources to market the MINI.

## **Backlog**

Product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project. We have a back log because we do not hold unsold units in inventory. As of December 31, 2012, we had a backlog of \$257,000 of firm ViewScan purchase orders, which represents approximately 19 units awaiting manufacture. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products weeks or months after receiving an order. However, we are attempting to shorten this lead time to several weeks.

## **MAJOR CUSTOMERS**

On October 9, 2012, the Company was selected for installation of its enhanced and new ViewScan VS-1000 weapons detection and access control product for installation in seventeen Detroit Public Schools. The ViewScan VS-1000 was introduced at the annual ASIS Security Conference and Exposition in Philadelphia in 2011 and has been chosen by

multiple companies to be used for access control. The first installations were made in the Detroit Public Schools in September 2011. To date, the Company has installed its ViewScan systems in the Bayview Electric ESS School, Wiltec Electronic Security Group, Fox Command Center, Detroit Police Department, Harper Woods School, BlueLine and has rented equipment to Pinkerton and Harper Woods School. The improved ViewScan VS-1000 system senses the smallest reading without being affected by environmental disturbances and structural elements such as reinforced concrete and metal door frames. Unlike ordinary metal detectors, the ViewScan VS-1000 system can be placed directly next to each other and still function correctly. The ViewScan VS-1000 system was also used at the National Democratic Convention.

During 2011, the Company had 21 ViewScan systems ordered by correctional facilities and 60 units ordered by domestic schools and police departments. We also received purchase orders for a total of 12 ViewScan units from a customer in Bangladesh.

## **COMPETITION**

The markets for our products are extremely competitive. Competitors include a broad range of companies that develop and market products for the identification and video surveillance markets. In the weapons detection market, we compete with Ranger Security Scanners, Inc. and Garrett Electronics, Inc. in the United States, and an Italian company, CEIA SpA, which has the most sophisticated electromagnetic induction product. In the video surveillance market we compete with numerous VCR suppliers and digital recording suppliers, including, Sensormatic Corporation, NICE Systems, Ltd., and Integral Systems.

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## **TRADEMARK, LICENSES AND INTELLECTUAL PROPERTY**

Certain features of our products and documentation are proprietary, and we rely on a combination of patent, contract, copyright, trademark and trade secret laws and other measures to protect our proprietary information. We limit access to, and distribution of, our software, documentation and other proprietary information. As part of our confidentiality procedures, we generally enter into confidentiality and invention assignment agreements with our employees and mutual non-disclosure agreements with our manufacturing representatives, dealers and systems integrators. Notwithstanding such actions, a court considering these provisions may determine not to enforce such provisions or only partially enforce such provisions.

The ViewScan concealed weapons detection technology involves sensing technology and data acquisition/analysis software subsystems that have patents pending or issued to the U.S. Department of Energy. We have not renewed our license, with the INEL to commercialize, manufacture and market the concealed weapons detection technology. View Systems has not filed for patents and has found that the expense and difficulty of patenting this product would be financially prohibitive.

Governmental ownership of the patents is advantageous to us; however, the costs have outweighed the benefits. We have not received improvements, the promised funding or support from our government licensors. We have, however, paid money and spent time to advance the technologies. We have obtained software licensing agreements for software operating systems components, fingerprint identification capabilities to possibly integrate into our proprietary software, and commercially available operating systems software to integrate into our proprietary product software.

Because the software and firmware (software imbedded in hardware) are in a state of continuous development, we have not filed applications to register the copyrights for these items. However, under law, copyright vests upon creation of our software and firmware. Registration is not a prerequisite for the acquisition of copyright rights. We take steps to insure that notices are placed on these items to indicate that they are copyright protected. The copyright protection for our software extends for the 20-year statutory period from the date of first "publication," distribution of copies to the general public, or from the date of creation, whichever occurs first.

We provide software to end-users under non-exclusive "shrink-wrap" licenses, which are automatic licenses executed once the package is opened. This type of license has a perpetual term and is generally nontransferable. Although we do not generally make source code available to end-users, we may, from time to time, enter into source code escrow agreements with certain customers. We have also obtained licenses for certain software from third parties for incorporation into our products.

## **RESEARCH AND DEVELOPMENT**

We outsource improvements or changes when requested by customers and warranted financially. For the years ended December 31, 2012 and December 31, 2011, we have spent approximately \$10,000 and \$20,000, respectively, on research and development.

## **REGULATORY ENVIRONMENT**

We are not subject to government approval or regulation in the manufacture of our products or the components in our products. However, our products are subject to certain government restrictions on sales to "unfriendly" countries and countries designated as adversarial, which may limit our sales to the international market. In addition, our resellers and end users may be subject to numerous regulations that stem from surveillance activities. We also benefit from the recent "made in America" trade laws where non-United States manufactures must secure waivers in order to sell security and surveillance products to United States domestic end-users.

Security and surveillance systems, including cameras, raise privacy issues and our products involve both video and audio, and added features for facial identification. The regulations regarding the recording and storage of this data are uncertain and evolving. For example, under the Federal wiretapping statute, the

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audio portion of our surveillance systems may not record a person's conversation without his or her consent. Further, there are state and federal laws associated with recording video in non-public places.

### **Cost and effect of compliance with environmental laws**

The Company has not determined any recognizable cost related to compliance with environmental laws.

### **EMPLOYEES**

As of the date of this Annual Report, we employ approximately five persons, including one sales executive and three office personnel, which includes one customer service engineer. Two persons are part-time and we also contract with five independent contractors who devote a majority of their work to a variety of our projects. Our employees are not presently covered by any collective bargaining agreement. Our relations with our employees are good, and we have not experienced any work stoppages by our employees.

### **ITEM 1A. RISK FACTORS.**

#### **RISK FACTORS**

You should carefully consider the risks, uncertainties and other factors described below because they could materially and adversely affect our business, financial condition, operating results and prospects and could negatively affect the market price of our common stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently believe are immaterial, may also impair our business operations and financial results. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

In assessing these risks you should also refer to the other information contained in or incorporated by reference to this Annual Report on Form 10-K, including our financial statements and the related notes.

**WE HAVE EXPERIENCED HISTORICAL LOSSES AND A SUBSTANTIAL ACCUMULATED DEFICIT. IF WE ARE UNABLE TO REVERSE THIS TREND, WE WILL LIKELY BE FORCED TO CEASE OPERATIONS.**

We have incurred losses for the past two fiscal years which consists of a net loss of \$888,022 for 2012 and a net loss of \$1,761,019 for 2011. In addition, we had an accumulated deficit of \$25,602,945 at December 31, 2012, as compared with \$24,714,923 at December 31, 2011. Further, we do not expect positive cash flow from operations in the near term. There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital will be required for future periods for: (i) new product development expenses; (ii) potential marketing costs and professional fees; or (iii) we encounter greater costs associated with general and administrative expenses or offering costs. As a result, we are unable to predict whether we will achieve profitability in the future, or at all.

The uncertainty and factors described throughout this section may impede our ability to economically develop, produce, and market our products effectively. As a result, we may not be able to achieve or sustain profitability or positive cash flows from operating activities in the future.

**WE HAVE A WORKING CAPITAL DEFICIT AND SIGNIFICANT CAPITAL REQUIREMENTS. SINCE WE WILL CONTINUE TO INCUR LOSSES UNTIL WE ARE ABLE TO GENERATE SUFFICIENT REVENUES TO OFFSET OUR EXPENSES, INVESTORS MAY BE UNABLE TO SELL OUR SHARES AT A PROFIT OR AT ALL.**

We had a net loss of \$888,022 for the fiscal year ended December 31, 2012 and net cash used in operations of \$262,599 for the fiscal year ended December 31, 2012. Because we have not yet achieved or acquired

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sufficient operating capital and given these financial results along with our expected cash requirements in 2013, additional capital investment will be necessary to develop and sustain our operations.

**OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM HAS RAISED DOUBT OVER OUR ABILITY TO CONTINUE AS A GOING CONCERN.**

The independent registered public accounting firm's report accompanying our December 31, 2012 and 2011 audited financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared "assuming that the Company will continue as a going concern." Our ability to continue as a going concern is dependent on raising additional capital to fund our operations and ultimately on generating future profitable operations. There can be no assurance that we will be able to raise sufficient additional capital or eventually have positive cash flow from operations to address all of our cash flow needs. If we are not able to find alternative sources of cash or generate positive cash flow from operations, our business and shareholders will be materially and adversely affected

We have incurred substantial operating and net losses, as well as negative operating cash flow and do not have financing commitments in place to meet expected cash requirements for the next twelve months. Our net loss for the year ended December 31, 2012 was \$888,022 and our net loss for the year ended December 31, 2011 was \$1,761,019. Our retained deficit was \$25,602,945 at December 31, 2012. We are unable to fund our day-to-day operations through revenues alone, and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. We have had to rely on private financing to cover cash shortfalls. As a result, we continue to have significant working capital and stockholders' deficits including a substantial accumulated deficit at December 31, 2012. In recognition of such, our independent registered public accounting firms have included an explanatory paragraph in their respective reports on our consolidated financial statements for the fiscal years ended December 31, 2012, and December 31, 2011 that expressed substantial doubt regarding our ability to continue as a going concern.

**WE NEED ADDITIONAL EXTERNAL CAPITAL AND IF WE ARE UNABLE TO RAISE SUFFICIENT CAPITAL TO FUND OUR PLANS, WE MAY BE FORCED TO DELAY OR CEASE OPERATIONS.**

Based on our current growth plan we believe we may require approximately \$1,200,000 in additional financing within the next twelve months to develop our sales channels. Furthermore, if the cost of our development, production and marketing programs are greater than anticipated, we may have to seek additional funds through public or private share offerings or arrangements with corporate partners. There can be no assurance that we will be successful in our efforts

to raise these required funds, or on terms satisfactory to us. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash reserves, if any, to repay principal and interest on those loans. If we issue our securities for capital, then the interests of investors and stockholders will be diluted. We are attempting to raise at least \$1 million through an offering of securities.

**WE ARE CURRENTLY DEPENDENT ON THE EFFORTS OF RESELLERS FOR OUR CONTINUED GROWTH AND MUST EXPAND OUR SALES CHANNELS TO INCREASE OUR REVENUES AND FURTHER DEVELOP OUR BUSINESS PLANS. OUR FUTURE GROWTH AND PROFITABILITY MAY DEPEND UPON THE EFFECTIVENESS AND EFFICIENCY OF OUR MARKETING EXPENDITURES IN RECRUITING NEW CUSTOMERS.**

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop these sales channels. We are actively recruiting additional resellers and dealers

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and have hired in-house sales personnel for regional and national sales. We must continue to find other methods of distribution to increase our sales. If we are unsuccessful in developing sales channels we may have to abandon our business plan.

Moreover, our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing expenditures, including our ability to: (i) create greater awareness of our ViewScan products and band name; (ii) identify the most effective and efficient level of spending in each market, media and specific media vehicle; (iii) determine the appropriate message and media mix for advertising, marketing and promotional expenditures; (iv) effectively manage marketing costs, including creative and media expense in order to generate and maintain acceptable costs; (v) generate leads for sales, including obtaining lists of businesses in a cost-effective manner; and (vi) drive traffic to our website.

**WE MAY NOT BE ABLE TO COMPETE SUCCESSFULLY IN OUR MARKET BECAUSE WE HAVE A SMALL MARKET SHARE AND COMPETE WITH LARGE NATIONAL AND INTERNATIONAL COMPANIES.**

We estimate that we have less than a 1% market share of the surveillance and weapons detection market. We compete with many companies that have greater brand name recognition and significantly greater financial, technical, marketing, and managerial resources. The position of these competitors in the market may prevent us from capturing more market share. We intend to remain competitive by increasing our existing business through marketing efforts, selectively acquiring complementary technologies or businesses and services, increasing our efficiency, and reducing costs.

**WE MUST SUCCESSFULLY INTRODUCE NEW OR ENHANCED PRODUCTS AND MANAGE THE COSTS ASSOCIATED WITH PRODUCING SEVERAL PRODUCT LINES TO BE SUCCESSFUL. WE OPERATE IN A MARKET WHICH IS SUBJECT TO RAPID TECHNOLOGICAL AND OTHER CHANGES AND INCREASING COMPETITION COULD LEAD TO PRICING PRESSURES, REDUCED OPERATING MARGINS, LOSS OF MARKET SHARE AND INCREASED CAPITAL EXPENDITURES.**

Our future success depends on our ability to continue to improve our existing products and to develop new products using the latest technology that can satisfy customer needs. For example, our short term success will depend on the continued acceptance of the Multi-Mission Mobil Video and the ViewScan portal product line. We cannot be certain that we will be successful at producing multiple product lines and we may find that the cost of production of multiple product lines inhibits our ability to maintain or improve our gross profit margins. In addition, the failure of our products to gain or maintain market acceptance or our failure to successfully manage our cost of production could

adversely affect our financial condition.

The markets for our ViewScan products is highly competitive and we expect increased competition in the future that could adversely affect our revenue and market share. Larger established companies with high brand recognition may develop products and services that are competitive with our core products and services. These competitors may be able to devote greater resources than us to the development, promotion and sale of their products and services and respond more quickly than we can to new technologies or changes. We may not be able to compete effectively with current or future competitors, especially those with significantly greater resources or more established customer bases, which may materially adversely affect our sales and our business.

**PROTECTION OF OUR INTELLECTUAL PROPERTY IS LIMITED AND ANY MISUSE OF OUR INTELLECTUAL PROPERTY BY OTHERS COULD HARM OUR BUSINESS, REPUTATION AND COMPETITIVE POSITION.**

Our trademarks, copyrights, trade secrets, trade dress and designs are valuable and integral to our success and competitive position. However, we cannot assure you that we will be able to adequately protect our proprietary rights through reliance on a combination of copyrights, trademarks, trade secrets, confidentiality procedures, contractual provisions and technical measures from outside influences. Protection of trade secrets and other intellectual property rights in the markets in which we operate and

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compete is highly uncertain and may involve complex legal questions. We cannot completely prevent the unauthorized use or infringement of our intellectual property rights, as such prevention is inherently difficult.

We also expect that the more successful we are, the more likely that competitors will try to illegally use our proprietary information and develop products that are similar to ours, which may infringe on our proprietary rights. In addition, we could potentially lose future trade secret protection for our source code if any unauthorized disclosure of such code occurs. The loss of future trade secret protection could make it easier for third parties to compete with our products by copying functionality. Any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws in any country in which we operate may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our confidential information and trade secret protection. If we are unable to protect our proprietary rights or if third parties independently develop or gain access to our or similar technologies, our business, service revenue, reputation and competitive position could be materially adversely affected.

**THE CONFIDENTIALITY, NON-DISCLOSURE AND OTHER AGREEMENTS WE USE TO PROTECT OUR PRODUCTS, TRADE SECRETS AND PROPRIETARY INFORMATION MAY PROVE UNENFORCEABLE OR INADEQUATE.**

We protect our products, trade secrets and proprietary information, in part, by requiring all of our employees and consultants to enter into agreements providing for the maintenance of confidentiality. We also enter into non-disclosure agreements with our technical consultants to protect our confidential and proprietary information. We cannot assure you that our confidentiality agreements with our employees, consultants and other third parties will not be breached, that we will be able to effectively enforce these agreements, that we will have adequate remedies for any breach, or that our trade secrets and other proprietary information will not be disclosed or will otherwise be protected.

**WE HAVE NOT REGISTERED COPYRIGHTS FOR OUR VIEWSCAN PRODUCTS, WHICH MAY LIMIT OUR ABILITY TO ENFORCE THEM.**

We have not registered our copyrights in all of our materials, website information, designs or other copyrightable works. The United States Copyright Act automatically protects all of our copyrightable works, but without registration we cannot enforce those copyrights against infringers or seek certain statutory remedies for any such infringement. Preventing others from copying our products, written materials and other copyrightable works is important to our overall success in the marketplace. In the event we decide to enforce any of our copyrights against infringers, we will first be required to register the relevant copyrights, and we cannot be sure that all of the material for which we seek copyright registration would be registrable in whole or in part, or that once registered, we would be successful in

bringing a copyright claim against any such infringers.

**THE SUCCESS OF OUR BUSINESS DEPENDS UPON THE CONTINUING CONTRIBUTION OF OUR KEY PERSONNEL, INCLUDING MR. GUNTHER THAN, OUR CHIEF EXECUTIVE OFFICER, WHOSE KNOWLEDGE OF OUR BUSINESS WOULD BE DIFFICULT TO REPLACE IN THE EVENT WE LOSE HIS SERVICES.**

We are dependent on the services of Gunther Than, our Chief Executive Officer, and a member of our Board and our other executive officers and members of our senior management team. For example, the loss of Mr. Than could damage customer relations and could restrict our ability to raise additional working capital if and when needed. There can be no assurance that Mr. Than will continue in his present capacity for any particular period of time. Other than non-compete provisions of limited duration included in employment agreements that we may or will have with certain executives, we do not generally seek non-compete agreements with key personnel, and they may leave and subsequently compete against us. The loss of service of any of our senior management team, particularly those who are not party to employment agreements with us, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have a material adverse effect on our business.

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**WE MAY BE UNABLE TO ATTRACT AND RETAIN THE SKILLED EMPLOYEES NEEDED TO SUSTAIN AND GROW OUR BUSINESS.**

Our success to date has largely depended on, and will continue to depend on, the skills, efforts and motivations of our executive team and employees, who generally have significant experience with our Company. Our success also depends largely on our ability to attract and retain highly qualified IT engineers and programmers, to train professionals and sales and marketing managers and corporate management personnel. We may experience difficulties in locating and hiring qualified personnel and in retaining such personnel once hired, which may materially and adversely affect our business.

**OUR DIRECTORS AND OFFICERS ARE ABLE TO EXERCISE SIGNIFICANT INFLUENCE OVER MATTERS REQUIRING STOCKHOLDER APPROVAL.**

Currently, our directors and executive officers collectively hold approximately 28.6% of the voting power of our common and 69.9% of the preferred stock entitled to vote on any matter brought to a vote of the stockholders. Including the effects of Gunther Than's, our Chief Executive Officer's voting preferred stock, our directors and officers have the power to vote approximately 39.7% of common shares (based on the assumed effects of conversion of all of Mr. Than's preferred stock) as of the date of this report. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders.

**OUR OFFICER AND DIRECTORS MAY BE SUBJECT TO CONFLICTS OF INTEREST.**

Some of our officers and directors serve only part time and can become subject to conflicts of interest. Some devote part of their working time to other business endeavors, including consulting relationships with other entities, and have responsibilities to these other entities. Such conflicts include deciding how much time to devote to our affairs, as well as what business opportunities should be presented to us. Because of these relationships, our officers and directors could be subject to conflicts of interest. Currently, we have no policy in place to address such conflicts of interest.

**NEVADA LAW AND OUR ARTICLES OF INCORPORATION MAY PROTECT OUR DIRECTORS FROM CERTAIN TYPES OF LAWSUITS.**

Nevada law provides that our officers and directors will not be liable to us or our stockholders for monetary damages for all but certain types of conduct as officers and directors. Our Bylaws permit us broad indemnification powers to all persons against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our officers and directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our officers and directors against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

**WE HAVE IDENTIFIED MATERIAL WEAKNESSES IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING, AND OUR BUSINESS AND STOCK PRICE MAY BE ADVERSELY AFFECTED IF WE DO NOT ADEQUATELY ADDRESS THOSE WEAKNESSES OR IF WE HAVE OTHER MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING.**

We did not adequately implement certain internal controls, particularly with respect to revenue reporting, and made certain other accounting errors in our financial statements for the year ended December 31, 2010 and for the interim periods of March 31, 2011, June 30, 2011, and September 30, 2011. Due to accounting errors, we had to restate our financial statements as of and for the period ended December 31, 2010 to reflect the correction of: (i) an understatement of deferred income that resulted from incorrectly allocating

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the revenue received under extended warranty arrangements over the life of the warranty; (ii) an overstatement of revenue due to recognition of sales prior to the installation of the products, and (iii) the classification of common stock that was issued to the holder of a note payable. As a result of reducing sales revenue there was a corresponding reduction in cost of sales and accounts payable. We had originally recorded the issuance of the stock as a payment in full for the note and related costs. However, after a further review of the legal documents, it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. Because of the errors that are being corrected, we have restated our belief that our internal controls over financial reporting were effective to conclude that they were not effective.

Although we have taken steps to correct our identified material weaknesses in our internal controls and have revised our interim financial disclosures for periods in 2011, the existence of these or possibly other material weaknesses or significant deficiencies raises concerns that the prevention of future errors could require the allocation of scarce financial resources at times when such resources may not be available to us. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information; the market price of our stock could decline significantly; we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

**FAILURE TO MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT WOULD LEAD TO LOSS OF INVESTOR CONFIDENCE IN OUR REPORTED FINANCIAL INFORMATION.**

Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Amendment No. 2 to Form 10-K for the fiscal year ending December 31, 2008, we have been required to furnish a report by our management on our internal control over financial reporting. If we cannot provide reliable financial reports or prevent fraud, then our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

To maintain compliance with Section 404 of the Act, we engage in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging and requires management to dedicate scarce internal resources and to retain outside consultants.

During the course of our testing, we may identify deficiencies which we may not be able to remediate in time for securities disclosure reporting deadlines. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with

Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud.

**THERE IS NO SIGNIFICANT ACTIVE TRADING MARKET FOR OUR SHARES, AND IF AN ACTIVE TRADING MARKET DOES NOT DEVELOP, PURCHASERS OF OUR SHARES MAY BE UNABLE TO SELL THEM PUBLICLY.**

There is no significant active trading market for our shares, and we do not know if an active trading market will develop. An active market will not develop unless broker-dealers develop interest in trading our shares, and we may be unable to generate interest in our shares among broker-dealers until we generate meaningful revenues and profits from operations. Until that time occurs, if it does at all, purchasers of our shares may be unable to sell them publicly. In the absence of an active trading market:

Investors may have difficulty buying and selling our shares or obtaining market quotations;  
Market visibility for our common stock may be limited; and  
A lack of visibility for our common stock may depress the market price for our shares.

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Moreover, the market price for our shares is likely to be highly volatile and subject to wide fluctuations in response to various factors, including the following: (i) actual or anticipated fluctuations in our quarterly operating results and revisions to our expected results; (ii) changes in financial estimates by securities research analysts; (iii) conditions in the market for our products; (iv) changes in the economic performance or market valuations of companies specializing in the defense industries; (v) announcements by us or our competitors of new services, strategic relationships, joint ventures or capital commitments; (vi) addition or departure of key personnel; (vii) litigation related to any intellectual property; and (viii) sales or perceived potential sales of our shares.

In addition, the securities market has from time to time, and to an even greater degree since the last quarter of 2007, experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ordinary shares. Furthermore, in the past, following periods of volatility in the market price of a public company's securities, shareholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

#### **OUR COMMON STOCK IS CONSIDERED TO BE "PENNY STOCK."**

Our common stock is considered to be a "penny stock" because it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Securities Exchange Act of 1934, as amended. These include but are not limited to, the following: (i) the stock trades at a price less than \$5.00 per share; (ii) it is not traded on a "recognized" national exchange; (iii) it is not quoted on The NASDAQ Stock Market, or even if quoted, has a price less than \$5.00 per share; or (iv) is issued by a company with net tangible assets less than \$2.0 million, if in business more than a continuous three years, or with average revenues of less than \$6.0 million for the past three years. The principal result or effect of being designated a "penny stock" is that securities broker-dealers cannot recommend the stock but must trade it on an unsolicited basis.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer, and sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the

purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. If a trading market for our common stock develops, our common stock will probably become subject to the penny stock rules, and shareholders may have difficulty in selling their shares.

**BROKER-DEALER REQUIREMENTS MAY AFFECT TRADING AND LIQUIDITY.**

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated thereunder by the SEC require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stocks." Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor.

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This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

**OUR COMMON STOCK MAY BE VOLATILE, WHICH SUBSTANTIALLY INCREASES THE RISK THAT YOU MAY NOT BE ABLE TO SELL YOUR SHARES AT OR ABOVE THE PRICE THAT YOU MAY PAY FOR THE SHARES.**

Because of the limited trading market for our common stock, and because of the possible price volatility, you may not be able to sell your shares of common stock when you desire to do so. The inability to sell your shares in a rapidly declining market may substantially increase your risk of loss because of such illiquidity and because the price for our common stock may suffer greater declines because of its price volatility.

The market price of our common stock may be higher or lower than the price you may pay for your shares. Certain factors, some of which are beyond our control, that may cause our share price to fluctuate significantly include, but are not limited to, the following:

- variations in our quarterly operating results;
- loss of a key relationship or failure to complete significant transactions;
- additions or departures of key personnel; and
- fluctuations in stock market price and volume.

Additionally, in recent years the stock market in general, and the over-the-counter markets in particular, have experienced extreme price and volume fluctuations. In some cases, these fluctuations are unrelated or disproportionate to the operating performance of the underlying company. These market and industry factors may materially and adversely affect our stock price, regardless of our operating performance.

In the past, class action litigation often has been brought against companies following periods of volatility in the market price of those companies' common stock. If we become involved in this type of litigation in the future, it could result in substantial costs and diversion of management attention and resources, which could have a further negative effect on your investment in our stock.

**WE HAVE NOT PAID, AND DO NOT INTEND TO PAY, CASH DIVIDENDS IN THE FORESEEABLE FUTURE.**

We have not paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business. Dividend payments in the future may also be limited by other loan agreements or covenants contained in other securities which we may issue. Any future determination to pay cash dividends will be at the discretion of our board of directors and depend on our financial condition, results of operations, capital and legal requirements and such other factors as our board of directors deems relevant.

**SALES OF OUR COMMON STOCK RELYING UPON RULE 144 MAY DEPRESS PRICES IN THE MARKET FOR OUR COMMON STOCK BY A MATERIAL AMOUNT.**

As of the date of this Annual Report, all of our common stock held by non-affiliates that was issued before December 31, 2012 and was either issued in a registered offer for sale or exchange or has been issued and outstanding beyond applicable holding periods imposed by Rule 144 under the Securities Act of 1933, as

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amended. Thus, with 100% of our common stock issued prior to December 31, 2011 to non-affiliates being freely tradeable, there is a significant risk that sales under Rule 144 or under any other exemption from the Securities Act, if available, or pursuant to registration of shares of Common Stock of present stockholders, may have a depressive effect upon the price of our common stock in the over-the-counter market, especially in situations where a large volume of shares is offered for sale at the same time.

Securities saleable pursuant to the Rule 144 exemption from registration may only be resold, however, if all of the requirements of Rule 144 have been met, including, but not limited to, the requirement that the issuer of the securities have made available all required public information. However, there is no limit on the amount of restricted securities that may be sold by a non-affiliate (i.e., a stockholder who has not been an officer, director or control person for at least 90 consecutive days) after the restricted securities have been held by the owner for a period of at least six months and the other requirements of Rule 144 have been satisfied. Presently shares of restricted Common Stock held by non-affiliates of the Company may be sold, subject to compliance with Rule 144, six months after issuance, provided that our Exchange Act registration remains in effect and we are current in our disclosure reporting obligations.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

As of the date of this Annual Report, there are no unresolved SEC Staff comments.

#### **ITEM 2. DESCRIPTION OF PROPERTY**

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year noncancellable operating lease, which expired in October 2008. This location serves as both our principal executive office and the manufacturing and assembly location for our proprietary products. We renewed the lease for one year commencing February 1, 2012 and expiring January 31, 2012. On October 15, 2012, we renewed the lease for a one year term starting January 1, 2013 and expiring December 31, 2012 for an annual rent of \$37,320 payable in monthly installments of \$3,110.00.

The base rent had been \$3,047 per month with an annual rent escalator of 3%. Under the prior lease terms during fiscal year 2012, the monthly lease payment was \$3,077. During fiscal year ended December 31, 2012, we paid an aggregate of \$49,071 in rent expense.

**ITEM 3. LEGAL PROCEEDINGS.**

As of the date of this Annual Report, management is not aware of any legal proceedings contemplated by any governmental authority or any other party involving us or our properties. As of the date of this Annual Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceedings. Management is not aware of any other legal proceedings pending or that have been threatened against us or our properties.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**PART II**

**ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASERS OF EQUITY SECURITIES.**

**MARKET INFORMATION**

Our common stock has been quoted on the OTC Bulletin Board under the symbol "VYST.OB" up to October 2008 and from October 17, 2008 under the symbol "VSYM.OB" and is traded over the counter.

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The following table sets forth the high and low price information of the Company's common stock for the periods indicated.

**OTC Bulletin Board (1) (2)**

| FISCAL YEAR ENDED DECEMBER 31, 2012: | High    | Low    |
|--------------------------------------|---------|--------|
| Fourth Quarter                       | \$0.04  | \$0.00 |
| Third Quarter                        | \$0.043 | \$0.00 |
| Second Quarter                       | \$0.043 | \$0.00 |
| First Quarter                        | \$0.03  | \$0.00 |

| FISCAL YEAR ENDED DECEMBER 31, 2011: |          |          |
|--------------------------------------|----------|----------|
| Fourth Quarter                       | \$0.012  | \$0.0011 |
| Third Quarter                        | \$0.0073 | \$0.0014 |
| Second Quarter                       | \$0.012  | \$0.005  |
| First Quarter                        | \$0.0155 | \$0.005  |

(1) Over-the-counter market quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

(2) Source: www.nasdaq.com

**SHAREHOLDERS OF RECORD**

As of December 31, 2012, there were approximately 393 holders of record of our common stock, not including holders who hold their shares in street name.

**DIVIDENDS**

We have never declared or paid a cash dividend. At this time, we do not anticipate paying dividends in the future. We are under no legal or contractual obligation to declare or to pay dividends, and the timing and amount of any future cash dividends and distributions is at the discretion of our Board of Directors and will depend, among other things, on our future after-tax earnings, operations, capital requirements, borrowing capacity, financial condition and general business conditions. We plan to retain any earnings for use in the operation of our business and to fund future growth. You should not purchase our Shares on the expectation of future dividends.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS****Equity Compensation Plan Information**

| Plan Category  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> |
|--|--|---|--|
| Equity compensation plans approved by security holders     | 50,000,000 (1)   | -   | 36,340,900 (2)   |
| Equity compensation plans not approved by security holders | -  | -   | -  |
| <b>Total</b>   | <b>50,000,000</b>  | <b>-</b>  | <b>36,340,900</b>  |

(1) Represents shares reserved for the Company's 2010 Equity Incentive Plan.

(2) Represents shares reserved for the Company's 2010 Service Provider Stock Compensation Plan.

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## **2010 EQUITY INCENTIVE PLAN**

The 2010 Equity Incentive Plan (“EIP”) is intended to attract, motivate, and retain employees of the Company, consultants who provide significant services to the Company, and members of the Board of Directors of the Company who are not employees of the Company. The EIP is designed to further the growth and financial success of the Company by aligning the interests of the participants, through the ownership of stock and through other incentives, with the interests of the Company’s stockholders.

**Benefits under the 2010 EIP.** As defined under the 2010 EIP, the Board may grant any one or a combination of Incentive Stock Options (within meaning of the Code), Non-Qualified Stock Options, Restricted Stock, as well as Performance Awards (collectively, “Awards”).

**Administration of the 2010 Equity Incentive Plan.** The EIP will be administered by the Board of Directors. If it chooses, the Board may delegate its authority to a Compensation Committee to be appointed by the Board (the “Committee”), which Committee may be comprised of two or more “outside directors” as described in Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). Subject to certain limitations in the 2010 EIP, the Board establishes the terms and conditions of awards granted under the 2010 EIP, interprets the 2010 EIP and all awards under the 2010 EIP, and administers the 2010 EIP.

**Eligible Participants under the 2010 EIP.** Except for Incentive Stock Options which may only be granted to Employees of the Company, Awards under the 2010 EIP may be granted to Employees, Directors, and Consultants of the Company (as such terms are defined in the 2010 EIP) who are designated by the Board. No employee may receive Awards under this 2010 EIP in any given year which, singly or in the aggregate, cover more than 150,000 shares of the Company’s Common Stock.

**Shares Available under the 2010 EIP.** The aggregate number of shares of Common Stock that may be issued or transferred to grantees under the 2010 EIP shall not exceed 50,000,000 shares. If there is a stock split, stock dividend or other relevant change affecting the Company’s shares, appropriate adjustments will be made in the number of shares that may be issued or transferred in the future and in the number of shares and price of all outstanding Awards made before such event. If shares under an Award are not issued or transferred, those shares would again be available for inclusion in future Award grants.

### **Awards Under the 2010 EIP**

**Stock Options.** The Board may grant options qualifying as incentive stock options under the Code and nonqualified stock options. The term of an option shall be fixed by the Board, but shall not exceed ten years. In the case of death of the holder of the option or upon the termination, removal or resignation of the option holder for any reason other than for cause within one year of the occurrence of a Change of Control (as that term is defined in the 2010 EIP), an option may be extended for up to 12 months depending on the circumstances. The option price shall not be less than the fair market value of the Common Stock on the date of grant. In the case of an award of Incentive Options to an employee possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent corporation or subsidiary corporation as those terms are defined in the Code, the option price shall not be less than 110% of the fair market value of the Common Stock on the date of grant and the option term shall not exceed five years from date of grant. Payment of the option price may be by cash or, with the consent of the Board, by tender of shares of Common Stock having an equivalent fair market value or delivery of shares of Common Stock for which the option is being exercised to a broker for sale on behalf of the option holder. With respect to Incentive Options, the aggregate fair market value of shares of Common Stock for which one or more options granted may for the first time become exercisable during any calendar year shall not exceed \$100,000.

**Restricted Stock.** The Board may also award shares of Restricted Stock. The shares will be issued as restricted stock within the meaning of Rule 144 of the Securities Act of 1933, as amended. Such grant would set forth the terms and conditions of the award, including the imposition of a vesting schedule during which the grantee must remain in the employ of the Company in order to retain the shares under grant. If the grantee's employment terminates during the period, the grant would terminate and the grantee would be

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required to return any unvested shares to the Company. However, the Board may provide complete or partial exceptions to this requirement as it deems equitable. Unless an Award specifically provides otherwise, any shares not otherwise vested shall vest upon the death, disability, termination, removal or resignation of the grantee for any reason other than for cause within one year of the occurrence of a Change of Control (as that term is defined in the 2010 EIP). The grantee cannot dispose of the shares prior to the expiration of forfeiture restrictions set forth in the grant. During this period, however, the grantee would be entitled to vote the shares and, at the discretion of the Board, receive dividends. Each certificate would bear a legend giving notice of the restrictions in the grant.

**Performance Awards.** The Board may grant Performance Units or Performance Shares in consideration of services performed or to be performed, under which payment may be made in shares of the Common Stock, a combination of shares and cash, or cash if the performance of the Company or any subsidiary or affiliate of the Company selected by the Board meets certain goals established by the Board during an award period. The Board would determine the goals, the length of an award period and the minimum performance required before a payment would be made. In order to receive payment, a grantee must remain in the employ of the Company until the completion of, and settlement under, the award period, except that the Board may provide complete or partial exceptions to that requirement as it deems equitable.

**Other Stock or Performance-Based Awards.** The Board also may grant shares of common stock or performance based Awards on the terms and conditions it determines in its discretion, as well as other rights not an Award otherwise described in the 2010 EIP but is denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock or cash as are deemed by the Board to be consistent with the purposes of the 2010 EIP. Such other stock or performance-based Awards may be in addition to, or in lieu of, cash or other compensation due the grantee.

#### **Other Information about the 2010 EIP**

The 2010 EIP will terminate in 2020 unless terminated earlier by our Board or extended by our Board with the approval of the stockholders.

Our Board may amend, suspend or terminate the 2010 EIP at any time, but such amendment, suspension or termination shall not adversely affect any Award then outstanding without the participant's consent. Any amendment that would constitute a "material amendment" of the 2010 EIP (as determined by the Board, in its sole discretion, subject to the rules and regulations of the OTCBB, if any, governing the use of such term in the context of an employee benefit plan), as amended, shall be subject to stockholder approval. Likewise, if the Exchange Act requires the Company to obtain stockholder approval, then such approval will be sought.

Unless approved by stockholders or as specifically otherwise required by the 2010 EIP (for example, in the case of a stock split), no adjustments or reduction of the exercise price of any outstanding incentive may be made in the event of a decline in stock price, either by reducing the exercise price of outstanding incentives or by canceling outstanding incentives in connection with re-granting incentives at a lower price to the same individual.

Awards may be exercised only by the Employee, Director, or Consultant to whom they are granted and are generally not assignable or transferable except for limited circumstances upon a grantee's death, or pursuant to rules that may be adopted by the Board. The Board may establish rules and procedures to permit a grantee to defer recognition of income or gain for incentives under the 2010 EIP.

It is anticipated that all members of the Board of Directors will participate in the 2010 EIP. Although the 2010 EIP has been approved, the Board of Directors has not contracted with the Company to implement the 2010 EIP into effect.

Amendments, Termination, Alteration or Suspension of the plan will impair the rights of any participant, only if mutually agreed to, in writing and signed by the participant and the Company.

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## General Information about the 2010 Service Provider Stock Compensation Plan

The Company's 2010 Service Provider Stock Compensation Plan ("SCP") is intended to promote the interests of the Company and its subsidiaries by offering those officers, directors, employees and consultants or advisors of the Company or any subsidiary who assist in the development and success of the business of the Company or any subsidiary, the opportunity to be compensated for their services in the form of Company stock in lieu of payment in cash.

**Benefits of the 2010 SCP.** The 2010 SCP is registered with the SEC pursuant to the Securities Act. Therefore, all eligible recipients accepting awards of stock for services under the SCP will receive registered stock. Payment for services in the form of registered stock is beneficial to the Company because it enables the Company to preserve its cash while enabling it the possibility of receiving valuable services from service providers. Not all service providers are expected to accept payment in Company stock. Those service providers that accept payment for services in Company Common Stock may liquidate the stock at any time at market price provided there is sufficient volume in the stock at time of sale. Usual investment risks in our Common Stock would apply to the stock issued pursuant to the SCP.

**Administration of the 2010 SCP.** The 2010 SCP initially will be administered by the Board of Directors. If it chooses, the Board may delegate its authority to a Board-appointed committee comprised of two or more "outside directors" as described in Section 162(m) of the Internal Revenue Code of 1986, as amended, for general administration of the SCP. The Board may also delegate its authority to a committee comprised of inside directors to administrate the SCP for non-executive officers and other service providers. The Board or the respective committees establish the terms and conditions of awards granted under the 2010 SCP, interpret the 2010 SCP and all awards under the 2010 SCP, and administer the 2010 SCP.

**Eligible Participants under the 2010 SCP.** Awards under the 2010 SCP may be granted to employees, officers, or directors of the Company or its affiliates, and/or to consultants or advisers currently providing bona fide services to the Company or its affiliates ("Service Providers"). Awards may be made under the SCP only if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is available to register either the offer or the sale of the Company's securities to such Service Provider because the nature of the services that the Service Provider is providing to the Company is consistent with the instructions governing the use of Form S-8, including the SEC interpretive Releases pertaining to Form S-8, then in effect. No Award under the Plan may be made for services provided in connection with the offer or sale of securities in a capital-raising transaction or for services that directly or indirectly promote or maintain a market for the Company's securities.

**Shares Available under the 2010 SCP.** The aggregate number of shares of Common Stock that may be issued or transferred to grantees under the 2010 SCP shall not exceed 50,000,000 shares. The number of shares of Stock

reserved for the SCP shall be adjusted proportionally to reflect, subject to any required action by stockholders, any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or other similar corporate change. Available shares under a stockholder approved plan of an acquired company (as appropriately adjusted to reflect the transaction) may be used for Awards under the SCP and will not reduce the number of shares available under the SCP, subject to applicable stock exchange requirements. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. If shares covered by an Award are forfeited or expire, or terminates without delivery of any stock subject thereto, those shares would again be available for inclusion in future Award grants.

**Other Information about the 2010 SCP** The 2010 SCP will terminate automatically in 2020 unless terminated earlier by our Board or extended by our Board with the approval of the stockholders.

Our Board may amend, suspend or terminate the 2010 SCP at any time as to any shares of Common Stock as to which awards have not been made. An amendment shall be contingent on approval of the Company's stockholders to the extent stated by the Board, required by applicable law or required by applicable stock exchange requirements.

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## **INFORMATION RELATING TO OUTSTANDING SHARES**

As of March 29, 2013, there were 182,421,178 shares of our common stock issued and outstanding and 2,989,647 shares of our preferred stock issued and outstanding. Except for 50,000,000 shares reserved under our 2010 Equity Incentive Plan, we have not reserved any other shares for issuance upon exercise of common stock purchase warrants or stock options.

All of our issued and outstanding common shares (of which 47,385,757 shares are owned by officers, directors and principal stock holders) were issued in a registered transaction or otherwise have been held a period in excess of six months and are eligible to be resold pursuant to Rule 144 promulgated under the Securities Act.

The resale of our shares of common stock owned by officers, directors and affiliates is subject to the volume limitations of Rule 144. In general, Rule 144 permits our affiliate shareholders who have beneficially-owned restricted shares of common stock for at least six months to sell without registration, within a three-month period, a number of shares not exceeding one percent of the then outstanding shares of common stock. Furthermore, if such shares are held for at least six months by a person not affiliated with us (in general, a person who is not one of our executive officers, directors or principal shareholders during the three month period prior to resale), such restricted shares can be sold without any volume limitation, provided all of the other requirements for resale under Rule 144 are applicable.

## **RECENT SALES OF UNREGISTERED SECURITIES**

During 2012, we issued an aggregate of 39,241,778 shares of unregistered common stock and 1,400,000 Series A preferred shares as follows.

### **Common Stock**

16,152,778 restricted shares were issued to ten investors at \$0.018 to \$0.020 per share for total proceeds of \$322,500;

4,500,000 restricted shares to Jerry Miller for professional services rendered of which 1,500,000 shares were issued at a per share price of \$0.0095 and 3,000,000 shares were issued at a per share price of \$0.0200;

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1,500,000 restricted shares to Timothy Moore for loan payable at a price per share of \$0.0050;

1,500,000 restricted shares to William Gaskill for loan payable at a price per share of \$0.0050;

6,500,000 restricted shares to John Holmes for professional promotional services rendered at a per share price of \$0.0095 to \$0.020;

1,500,000 restricted shares to Elizabeth Holmes for professional services rendered at a per share price of \$0.0200;

3,125,000 restricted shares to Jerry Robinson for professional marketing services rendered at a per share price of \$0.0200;

1,000,000 restricted shares to Proactive Capital for professional promotional services rendered at a per share price of \$0.0200;

1,000,000 shares to Christian Steffey for payment of accrued interest at a per share price of \$0.0750;

625 restricted shares to John Piljer for legal services rendered at a per share price of \$0.0200; and

9,839,000 restricted shares to Gunther Than for payment of accrued executive compensation of which 1,839,000 shares were issued at a per share price of \$0.0590 and 8,000,000 issuable shares at a per share price of \$0.0200.

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The shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. The shares were issued in private transactions, and all of the ten purchasers had an employment, professional, or vendor relationship with us such that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to their respective acquisitions of our securities. All of the purchasers were aware that the shares of common stock offered had not been registered under the Securities Act or under any state securities laws and could not be

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re-offered or re-sold without registration with the SEC or without an applicable exemption from the registration requirements. All of the purchasers understood the economic risk of an investment in our securities. Neither we nor any person acting on its behalf offered or sold the securities by any form of general solicitation or general advertising.

### **Series A Preferred Shares**

We issued 1,000,000 shares to Gunther Than for payment of accrued executive compensation at a per share price of \$0.0433.

We issued 1,500,000 to John Homes for payment of services rendered at a per share price of \$0.0158.

The preferred shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. The shares were issued in a private transaction, and Messrs. Than and Holmes had a professional and/or executive officer relationship with us such that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to their acquisition of our securities. Messrs. Holmes and Than were aware that the shares of preferred stock offered had not been registered under the Securities Act or under any state securities laws and could not be re-offered or re-sold without registration with the SEC or without an applicable exemption from the registration requirements. Messrs. Holmes and Than understood the economic risk of an investment in our securities. Neither we nor any person acting on our behalf offered or sold the securities by any form of general solicitation or general advertising.

### **USE OF PROCEEDS FROM REGISTERED SECURITIES**

On October 7, 2010, we filed a registration statement with the U.S. Securities & Exchange Commission (“SEC”) on Form S-1 to register 50,000,000 shares of our common stock with the hope of raising up to \$1 million in proceeds. The SEC file number of the registration statement is 333-169804. The Form S-1 was declared effective by the SEC on March 25, 2011. The stated primary purposes of the offering are to obtain additional capital to: (1) facilitate product fulfillment (manufacturing, packaging and shipment), which we anticipate will enable future orders to be self funding; (2) provide working capital to finance corporate acquisitions and the integration of new technologies; and (3) retire debt through cash payment or the exchange of debt obligations with payment in registered Common Stock. The offering price for the Company’s shares registered in the offering is \$0.02 per share for an aggregate offering price of \$1 million. The registration statement also registered for resale 1,500,000 shares of restricted common stock issued to one of our consultants in exchange for forgiveness of debt. The consultant may re-offer the shares at market price. The aggregate offering price of the consultant’s shares at \$0.02 per share is \$30,000.

As of December 31, 2011, we have not sold or exchanged common stock registered in the registration statement for cash, services, or in exchange for forgiveness of any debt obligation. The offering at all times has been self-underwritten, meaning we have been offering the registered shares ourselves, and we have not entered into an agreement for an underwriter to acquire some or all of the shares registered. The offering expires by its own terms on March 25, 2012. We have not incurred a material amount of expenses in offering the shares for sale because the market price of our common stock was below the fixed offering price provided in the prospectus. Also, we understand that the selling shareholder named in the prospectus has not sold its shares registered in the registration statement.

**ISSUER PURCHASE OF SECURITIES**

None.

**ITEM 6. SELECTED FINANCIAL DATA.**

Not Applicable.

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## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following analysis of our consolidated financial condition and results of operations for the years ended December 31, 2012 and 2011 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this annual report.

### **OVERVIEW**

Management believes that heightened attention to personal threats, potential large scale destruction and theft of property in the United States along with spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

Our current product lines are related to visual surveillance, intrusion detection and physical security. In October 2012, we were selected for installation in seventeen Detroit public school our ViewScan VS-1000. As of the date of this Annual Report, we have installed thirty-seven. In February 2010 we introduced a new product that we call the MINI (Mobile Intelligent Network Informer). We have received multiple inquires about the need for such a device during 2008 and have invested engineering resources to create a working device. In the fall of 2009 we discovered a device in China that fit our specifications closely so we decided to enter the market with that device instead of continuing to spend our own engineering dollars. We commenced Internet sales efforts of the MINI as a distributor in February 2010. We had a net of seventeen sales in 2010. We have not had additional sales of this product, and we are not actively pursuing sales at this time.

During fiscal years ended December 31, 2012 and 2011, we received 22% and 65% of our product sales revenue for a single state municipal agency. If a significant decrease in this revenue occurs in subsequent years it could have a material effect on the financial statements.

In 2011 we had 21 ViewScan units ordered by correctional facilities of which we delivered 7 units, and 60 units ordered by domestic schools and police departments, of which we delivered 21 units. We also received purchase orders for a total of 12 ViewScan units from a customer in Bangladesh, of which we delivered 2 units in 2011 and the remainder in 2012. Our ability to fill these orders on a timely basis was hampered by a lack of cash needed to acquire the necessary parts.

Our strategy for 2013 for ViewScan will be to extend our sales and service provisions. To increase sales we offer demonstrations of our products to potential customers in specific geographical areas and at region - specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police and dealer shows. When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings.

In the short term, management plans to raise funds through sales of our common stock for fulfillment (manufacturing, packaging and shipment), which will set the stage for future orders becoming self funding. Then the next phase of our business plan will be to raise additional funds through common stock offerings to provide working capital to finance several acquisitions and the integration of new technologies and businesses.. We also intend to continue to strengthen our balance sheet by paying off debt either through exchange of equity for cancellation of debt obligations or the payment of debt obligations with cash.

When possible we have conserved our cash by paying employees, consultants, and independent contractors with our common stock. As of March 2010, our outstanding equity compensation and equity incentive plans established in 1999 and 2000 had expired by their terms. We implemented two new plans in April and June 2010, respectively. On April 2, 2010, by majority shareholder consent, we adopted our 2010 Equity Incentive Plan. Reserved for equity issuances under the Equity Incentive Plan are 50,000,000 shares of our common stock. On June 1, 2010, by majority shareholder consent, we adopted our 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Service Provider Stock Compensation Plan are 50,000,000 shares of our common stock. On July 21, 2010, we registered the

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common stock issuable under the 2010 Equity Incentive Plan and the 2010 Service Provider Stock Compensation Plan. A total of 100,000,000 shares are reserved for issuances under the two plans.

### **No Merger or Acquisition Pending in 2013**

We have not entered into definite agreements or decisions about any business combination opportunities, although we did have several discussions with interested parties that appeared to be promising. None of those discussions resulted in the execution of a term sheet or other document, and we do not believe that such discussions with such parties will be resumed. However, we continue to explore potential merger and acquisition options. We continue to have net tax loss carry-forward of approximately \$24,000,000 that has been of interest to some potential acquirers.

### **Discontinued Operation**

Fiber optic contract installations peaked for 2010 in the summer months. Although this market is seasonal and slow in the fall and winter months, we did not secure meaningful subcontract work during 2011. We have chosen not to pursue Fiber optic network installations and have discontinued this area of our business.

### **Form S-1 Registration Statement Declared Effective**

On October 7, 2010, we filed a registration statement with the U.S. Securities & Exchange Commission (“SEC”) on Form S-1 to register 50,000,000 shares of our common stock with the hope of raising up to \$1 million. The Form S-1 was declared effective by the SEC on March 25, 2011. The stated primary purposes of the offering are to obtain additional capital to: (1) facilitate product fulfillment (manufacturing, packaging and shipment), which we anticipate will enable future orders to be self funding; (2) provide working capital to finance corporate acquisitions and the integration of new technologies; and (3) retire debt through cash payment or the exchange of debt obligations with payment in registered common stock. The registration statement also registered for resale 1,500,000 shares of restricted common stock issued to one of our consultants in exchange for forgiveness of debt.

Having our registration statement declared effective proved to be only the first step in pursuit of restructuring our debts with the help of a registered securities offering. Two circumstances, which may be related, prevented our progress: (1) we have not secured a suitable investment banking relationship through which to underwrite all or part of the offering; and (2) our common stock traded in 2011 at share prices below the \$0.02 per share fixed price of the offering, making it impossible to find public buyers for registered stock. We anticipate that we will have greater

success in 2013 in selling stock registered in the offering because in our first quarter of 2012 we made our first sales of our registered shares. The registration statement by its terms expires on March 25, 2012.

### **Restatements of Financial Statements for December 31, 2010, and March 31, June 30, and September 30, 2011**

In conjunction with our previously reported change of independent accountants, we engaged an outside consultant to perform a review of 100% of our 2011 revenue arrangements and to identify any misapplication of US GAAP with respect to those arrangements. As a result of this review, we determined to restate our financial statements as of and for the period ended December 31, 2010 to reflect a correction to an understatement of deferred income that resulted from allocating the revenue received under extended warranty arrangements over the life of the warranty. Also, we were correcting a revenue overstatement due to recognition of sales prior to the installation of our products. As a result of reducing sales revenue there was a corresponding reduction in cost of sales and accounts payable. In addition, we restated our December 31, 2010 financial statements due to the reclassification of common stock that was issued to a holder of a note payable. We had originally recorded the issuance of the stock as a payment in full for the note and related costs however after a further review of the legal documents it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. Because of the errors that are being corrected, we will revise management's report on internal controls over financial reporting to conclude that our internal controls over financial reporting were not effective.

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Amendment No. 2 to our Form 10-K for the year ended December 31, 2010 discloses the restated financial statements for December 31, 2010.

The correction and restatement to our financial statements for the year ended December 31, 2010 also resulted in corrections and restatements to our financial statements included in Forms 10-Q filed for periods ending in 2011. Thus, we amended our Forms 10-Q for the periods ending March 31, 2011, June 30, 2011, and September 30, 2011.

## RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended December 31, 2012 and 2011 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part II, Item 8, below.

### SUMMARY COMPARISON OF OPERATING RESULTS

|                              | Years ended December 31, |              |
|------------------------------|--------------------------|--------------|
|                              | 2012                     | 2011         |
| Revenues, net                | \$850,456                | \$378,177    |
| Cost of sales                | 420,543                  | 158,973      |
| Gross profit (loss)          | 429,913                  | 219,204      |
| Total operating expenses     | 1,296,925                | 907,006      |
| Loss from operations         | (867,012 )               | (687,802 )   |
| Total other income (expense) | (21,010 )                | (1,073,217 ) |
| Net loss                     | (888,022 )               | (1,761,019 ) |
| Net loss per share           | \$(0.01 )                | \$(0.02 )    |

Revenue is generally considered earned when the product is shipped to the customer. The concealed weapons detection system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

The following chart provides a breakdown of our sales in 2012 and 2011.

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|                                      | Dec. 31,<br>2012 | Dec. 31,<br>2011 |
|--------------------------------------|------------------|------------------|
| ViewScan/VFR                         | \$661,465        | \$183,334        |
| Warranty                             | 104,603          | 121,614          |
| Surveillance Package                 | -0-              | 3,625            |
| Fiber-optic installation             | 28,730           | -0-              |
| Service, installation, training, etc | 55,658           | 69,604           |
| Total                                | \$850,456        | \$378,177        |

Our sales backlog at December 31, 2012, was \$257,000 and our backlog at December 31, 2011 was \$220,000. The delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products weeks or months after receiving an order. However, we are attempting to shorten this lead time to several weeks.

Also, product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project. We have a back log because we do not hold unsold units in inventory.

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**Fiscal Year Ended December 31, 2012 Compared to Fiscal Year Ended December 31, 2011.**

Our net loss for fiscal year ended December 31, 2012 was (\$888,022) compared to a net loss of (\$1,761,019) during fiscal year ended December 31, 2011 (a decrease in net loss of \$872,997). We generated revenues of \$850,456 during fiscal year ended December 31, 2012 compared to \$378,177 during fiscal year ended December 31, 2011. Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training. Revenue recognition may be delayed for other reasons. Product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project. As discussed above, we have a back log because we hold unsold units in inventory. The delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products several months after receiving an order. The delay is caused by timing of the installation. However, we are attempting to shorten this lead time to several weeks.

We have experienced an increase in sales of our products which resulted in increased revenues for fiscal year ended December 31, 2012 compared to fiscal year ended December 31, 2011. We believe the increased revenue is the result of recognition of deferred revenue and an increased demand for security products in times of potential general unrest and increased awareness of our product.

Inflation has not been a significant factor in either our price points nor in the cost of products sold. The sales cycles are long and cross budget and annual review boundaries. The approval for purchase process is affected by both federal funds being available and state decisions interacting with local needs and review of safety and homeland security committees comprised of sheriffs, police, fire and SWAT teams. We have not found elasticity in price affecting decision for purchase or approval.

Cost of goods sold increased during fiscal year ended December 31, 2012 to \$420,543 from \$158,973 incurred during fiscal year ended December 31, 2011, resulting in a gross profit of \$429,913 for fiscal year ended December 31, 2012 compared to a gross profit of \$219,204 for fiscal year ended December 31, 2011. During fiscal year ended December 31, 2012, the prevailing trend of increasing cost of goods sold was due to an increase in the security-related products ordered by government agencies and due to the increase in associated costs related to the components of our security-related products, which is based on general overall economic factors. The gross profit percentage on our non-warranty revenue, which is a measurement of gross profit as a percent of sales of products, installations and

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related revenue, increased during fiscal year ended December 31, 2012 as compared to fiscal year ended December 31, 2011. This increase is attributable to increases in revenue generated from sources that do not require materials to be purchased. Specifically rental income of \$17,340 and income from service and labor of \$34,632 for fiscal year ended December 31, 2012 is primarily attributed to the increase in the gross profit percent.

During fiscal year ended December 31, 2012, we incurred operating expenses of \$1,296,925 compared to \$907,006 incurred during fiscal year ended December 31, 2011 (an increase of \$389,919). These operating expenses incurred during fiscal year ended December 31, 2012 consisted of: (i) general and administrative of \$361,393 (2011: \$370,358); (ii) professional fees of \$623,352 (2011: \$281,930); (iii) salaries and benefits of \$312,180 (2011: \$247,483); and (iv) bad debt expense of \$-0- (2011: \$7,235).

During fiscal year ended December 31, 2012, our general and administrative expenses generally consisted of: (i) advertising and promotion of \$5,523; (ii) advertising and promotion - trade shows of \$5,285; (iii) bank service charges of \$8,065; (iv) contractual temporary labor of \$72,439; (v) filing and service fees of 47,868; (vi) insurance - auto of \$8,161; (vii) liability insurance of \$5,652; (viii) postage and delivery of

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\$7,825; (ix) rent of \$40,387; (x) supplies of \$9,459; (xi) telephone of \$15,203; (xii) T&M of \$100,100; (xiii) utilities of \$10,120; and (xiv) depreciation of \$14,976.

During fiscal year ended December 31, 2012, our professional fees consisted of: (i) accounting fees of \$162,079; (ii) engineering fees of \$90,000; (iii) legal fees of \$178,083; and (iv) marketing and promotional fees of \$193,190.

Operating expenses incurred during fiscal year ended December 31, 2012 compared to fiscal year ended December 31, 2011 increased primarily due to the increase in professional fees of \$341,422 and salaries and benefits of \$64,697. The increase in professional fees was related to necessary increases in accounting, auditing and legal fees to improve the quality and timeliness of financial reporting. The increase in salaries and benefits related primarily to an increase in personnel at a time when we increased our sales efforts.

Our net operating loss during fiscal year ended December 31, 2012 was (\$867,012) compared to a net operating loss of (\$687,802) during fiscal year ended December 31, 2011.

During fiscal year ended December 31, 2012, interest expense in the amount of (\$62,020) (2011: (\$104,383)) was incurred. The decrease in interest expense was due to a decrease in interest bearing notes payable. During fiscal year ended December 31, 2012, we also realized a gain of \$41,010 (2011: (\$83,601)) from re-negotiated debt. During fiscal year ended December 31, 2011, we realized a loss from impairment of (\$885,233) compared to \$-0- during fiscal year ended December 31, 2012. The loss from impairment related to the intellectual property, known as "The Gator", transferred and deed to us from The Fight Zone in lieu of repayment of a debt. However, during fiscal year ended December 31, 2011, it was determined that the value of the intellectual property was totally impaired primarily because the product was not completely ready for market and that management could not reasonable expect that there would be sales of "The Gator" in the near future. Therefore, this resulted in total other expense during fiscal year ended December 31, 2012 of (\$21,010) compared to total other expense during fiscal year ended December 31, 2011 of (\$1,073,217).

After deducting other expense, we realized a net loss of (\$888,022) or (\$0.01) for fiscal year ended December 31, 2012 compared to a net loss of (\$1,761,019) or (\$0.02) for fiscal year ended December 31, 2011. The weighted average number of shares outstanding was 157,505,068 for fiscal year ended December 31, 2012 compared to 114,385,592 for fiscal year ended December 31, 2011.

## **LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN**

**Fiscal Year Ended December 31, 2012**

As of December 31, 2012, our current assets were \$399,983 and our current liabilities were \$1,881,855, which resulted in a working capital deficit of \$1,481,872. As of December 31, 2012, current assets were comprised of: (i) \$107,181 in cash; (ii) \$41,675 in accounts receivable (net of allowance for doubtful accounts of \$-0-); (iii) \$142,065 in inventory; and (iv) \$109,062 in prepaid expenses. As of December 31, 2012, current liabilities were comprised of: (i) \$681,197 in accounts payable and accrued expenses; (ii) \$28,102 in deferred compensation; (iii) \$155,886 in accrued and withheld payroll taxes payable; (iv) \$54,885 in accrued interest payable; (v) \$225,000 in accrued royalties payable; (vi) \$199,173 in loans from stockholders; (vii) \$197,058 in notes payable; (viii) \$124,578 in stock settlement payable; and (ix) deferred revenue of \$215,976.

As of December 31, 2012, our total assets were \$446,271 comprised of: (i) \$399,983 in current assets; (ii) property and equipment (net) of \$16,150; (iii) \$27,266 in prepaid expenses (non-current portion); and (iv) \$2,872 in deposits. The increase in total assets during fiscal year ended December 31, 2012 from fiscal year ended December 31, 2011 was primarily due to the increase in cash and prepaid expenses.

As of December 31, 2012, our total liabilities were \$1,958,086 comprised of: (i) \$1,881,855 in current liabilities; and (ii) \$76,231 in long term portion of notes payable. The decrease in liabilities during fiscal

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year ended December 31, 2012 from fiscal year ended December 31, 2011 was primarily due to the decrease in deferred compensation and in deferred revenue.

Stockholders' deficit decreased from (\$1,886,757) for fiscal year ended December 31, 2011 to (\$1,511,815) for fiscal year ended December 31, 2012.

### **Cash Flows from Operating Activities**

We have not generated positive cash flows from operating activities. For fiscal year ended December 31, 2012, net cash flows used in operating activities was \$262,599 compared to \$20,580 for fiscal year ended December 31, 2011. Net cash flows used in operating activities consisted primarily of a net loss of \$888,022 (2011: \$1,761,019), which was partially adjusted by: (i) \$479,396 (2011: \$155,065) in common stock issued for services; (ii) \$44,297 (2011: \$-0-) in preferred stock issued for services; (iii) \$14,978 (2011: \$124,219) in depreciation and amortization; (iv) a gain of (\$41,010) (2011: \$83,601) from re-negotiated debt; (v) \$15,000 in interest expense paid with stock; (v) \$-0- (2011: \$7,235 in bad debt expense; and (vi) \$-0- (2011: \$885,233) in loss from impairment.

Net cash flows used in operating activities was further changed by: (i) \$36,547 (2011: (\$7,008)) in accounts receivable; (ii) \$19,284 (2011: (\$158,625)) in inventories; (iii) \$29,100 (2012: (\$29,100) in pre-paid expenses; (iv) \$211,811 (2011: \$262,283) in accounts payable and accrued expenses; (v) \$47,412 (2011: \$75,514) in deferred compensation; (vi) \$18,490 (2012: \$61,075) in payroll taxes accrued and withheld; (vii) \$27,045 (2011: \$41,477) in accrued interest; and (viii) (\$182,102) (2012: (\$239,808)) in deferred revenue.

### **Cash Flows from Investing Activities**

For fiscal years ended December 31, 2012 and December 31, 2011, net cash flows used in investing activities was \$-0-.

### **Cash Flows from Financing Activities**

We have financed our operations primarily from debt or the issuance of equity instruments. For the fiscal year ended December 31, 2012, net cash flows provided from financing activities was \$340,739 compared to \$41,287 for fiscal year ended December 31, 2011. Cash flows from financing activities for the fiscal year ended December 31, 2012 consisted of: (i) \$322,500 (2012: \$-0-) in proceeds from sales of common stock; (ii) \$49,006 (2011: \$108,206) in

loans received from stockholders; Cash flows from financing activities for fiscal year ended December 31, 2011 was reduced by: (i) loans paid under term loan in the amount of \$21,894 (2012: \$22,963); (ii) principal reductions on equipment notes payable of \$8,873 (2012: \$5,168); and (iii) payments on stock settlement in process of \$-0- (2011: \$38,788). .

## **PLAN OF OPERATION AND FUNDING**

We have incurred losses for the past two fiscal years and had a net loss of \$888,022 at December 31, 2012. We had insufficient funds to deliver our backlog in the last half of 2012 through the present. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For fiscal year ended December 31, 2012, we generated cash from revenues of \$429,912, repaid \$21,894 on notes payable, received an additional \$49,006 of stockholder loans and received cash from the sale of common stock of \$322,500. For fiscal year ended December 31, 2011, we generated cash from revenues of \$219,204 and repaid \$22,963 on notes payable. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. We will also continue to rely on the issuance of our common stock to pay for services and to debt

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when cash is unavailable. Management anticipates that we will continue to issue shares for services in the short term.

Our net loss for fiscal year ended December 31, 2012 was \$888,022 as compared with a net loss of \$1,761,019 for fiscal year ended December 31, 2011. Our net loss was largely offset by adjustments (such as compensation paid with common and preferred stock in the amount of \$286,797, depreciation expenses and net changes in current assets and liabilities, which resulted in \$262,599 net cash used in operating activities for fiscal year ended December 31, 2012 as compared with \$20,580 net cash used in operating activities for fiscal year ended December 31, 2011. For fiscal year ended December 31, 2012, our net cash provided by financing activities was \$340,739 as compared with \$41,287 net cash provided by financing activities for fiscal year ended December 31, 2011. For fiscal year ended December 31, 2012, we had \$107,181 in cash as compared with \$29,041 in cash on hand for fiscal year ended December 31, 2011.

Management intends to finance our 2013 operations primarily with the revenue from product sales and any cash short falls will be addressed through equity or debt financing, if available. Management expects revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. At our current revenue levels management believes we will require an additional \$1,200,000 in equity financing during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month for operations and to facilitate our business plan.

These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2013 and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2012, then we may be required to reduce our expenses and scale back our operations.

### **Going Concern**

If the market price of our common stock falls below the fixed price of our registered stock offering, as in prior years we may again have insufficient financing commitments in place to meet our expected cash requirements for 2013. We cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2013, then we may be required to reduce our expenses and scale back our operations. These factors raise substantial doubt of our ability to continue as a going concern. Footnote 2 to our financial statements provides additional explanation of Management's views on our status as a going concern. The audited financial statements contained in this Annual Report do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should we be unable to continue as a going concern.

Our independent registered accounting firm included an explanatory paragraph in their reports on the accompanying financial statements regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

We lease 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland. We renewed the lease for one year commencing February 1, 2013 and expiring December 31, 2013. The base rent had been \$3,047 per month with an annual rent escalator of 3%. Under the current renewal the monthly lease payment is \$3,077.

Our total current liabilities decreased to \$1,881,855 at fiscal year ended December 31, 2012 compared to \$2,115,039 at December 31, 2011. Our current total liabilities at December 31, 2012 included accounts payable and accrued expenses of \$681,197, deferred compensation of \$28,102, accrued and withheld payroll taxes payable of \$155,880 accrued interest of \$454,885, accrued royalties of \$225,000, loans from

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stockholders of \$199,173, notes payable (short term) of \$197,058, stock settlement payable of \$124,578, and deferred revenue of \$215,976.

As of December 31, 2012, our short and long term notes payable consist of the following:

We have an unsecured convertible loan from a former director, William D. Smith, in the principal amount of \$116,000. The holder of the note has been receiving interest payments irregularly in the form of cash and common stock. The amount currently outstanding is \$116,000, and the loan is in default.

We have a term loan arranged for and secured by our Director Dr. Bagnoli in the amount of \$200,000 of which the outstanding balance is \$97,185. Interest is payable monthly at 7.5% per annum and the loan is due during 2016. The line of credit was used to purchase inventory and equipment for our fiber optics business.

We have financed a vehicle in 2009 through Chase Auto Finance with an outstanding balance of \$10,104. Payments are \$533 per month which includes interest at 5.34%. The loan is for 60 months with the final payment due in July 2014.

We are in default of a September 18, 2009 demand loan payable to an investor which was due December 17, 2009 in the amount of \$50,000. Interest has accrued at 5% per month since December 17, 2009. The loan is secured by our accounts receivable. Effective July 1, 2012 the accrual of interest was halted by agreement with the lender.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **CONTRACTUAL OBLIGATIONS**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide this information.

## **CRITICAL ACCOUNTING POLICIES**

We have three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases revenue is considered earned when the product is shipped to the customer, installed (if necessary) and accepted by the customer as a completed sale. The concealed weapons detection system and the digital video system each require installation and training. The customer can engage us for installation and training, which is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training and acceptance by the customer. However, the customer can also self-install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Customers can purchase extended warranties, which provide for replacement or repair of the unit beyond the period provided by the unconditional warranty. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. The revenue from warranties is recognized on a straight line bases over the period covered by the warranty. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectability is reasonably assured.

**Restatements of Financial Statements for December 31, 2010, and March 31, June 30, and September 30, 2011**

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In conjunction with the Company's previously reported change of independent accountants, the Company engaged an outside consultant to perform a review of 100% of the Company's 2011 revenue arrangements and to identify any misapplication of US GAAP with respect to those arrangements. As a result of this review, the Company determined to restate its financial statements as of and for the period ended December 31, 2010 to reflect a correction to an understatement of deferred income that resulted from allocating the revenue received under extended warranty arrangements over the life of the warranty. Also, we are correcting a revenue overstatement due to recognition of sales prior to the installation of our products. As a result of reducing sales revenue there was a corresponding reduction in cost of sales and accounts payable. In addition, the Company is restating its December 31, 2010 financial statements due to the reclassification of common stock that was issued to a holder of a note payable. The Company had originally recorded the issuance of the stock as a payment in full for the note and related costs however after a further review of the legal documents it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. Because of the errors that are being corrected, we will revise management's report on internal controls over financial reporting to conclude that our internal controls over financial reporting were not effective. Amendment No. 2 to our Form 10-K for the year ended December 31, 2010 discloses the restated financial statements for December 31, 2010.

The correction and restatement to our financial statements for the year ended December 31, 2010 also resulted in corrections and restatements to our financial statements included in Forms 10-Q filed for periods ending in 2011. Thus, we amended our Forms 10-Q for the periods ending March 31, 2011, June 30, 2011, and September 30, 2011.

### **Termination of Pending Acquisition**

In June 2012 we announced the pendency of an acquisition via asset purchase of Essential Security Group of Toledo, Ohio. In or about September 2012, during our due diligence inquiry, we determined not to go forward with the transaction as proposed.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As a "smaller reporting company", the Company is not required to provide this information.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**VIEW SYSTEMS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

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Reports of Independent Registered Public Accounting Firms

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View Systems, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 December 31, 2012 and 2011

|   | 2012      | 2011      |
|---|-----------|-----------|
| <b>ASSETS</b>   |           |           |
| Current Assets  |           |           |
| Cash  | \$107,181 | \$29,041  |
| Accounts Receivable (Net of Allowance for Doubtful Accounts of \$0 for 2012 and \$5,450 for 2011)               | 41,675    | 78,222    |
| Inventory   | 142,065   | 161,349   |
| Prepaid Expenses  | 109,062   | 29,100    |
| Total Current Assets  | 399,983   | 297,712   |
| Property and Equipment (Net)  | 16,150    | 31,126    |
| Other Assets  |           |           |
| Prepaid Expenses (non-current portion)  | 27,266    | —         |
| Deposits  | 2,872     | 2,872     |
| Total Other Assets  | 30,138    | 2,872     |
| Total Assets  | \$446,271 | \$331,710 |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |           |           |
| Current Liabilities   |           |           |
| Accounts Payable and Accrued Expenses   | \$681,197 | \$548,999 |
| Deferred Compensation   | 28,102    | 227,353   |
| Accrued and Withheld Payroll Taxes Payable  | 155,886   | 137,396   |
| Accrued Interest Payable  | 54,885    | 87,840    |
| Accrued Royalties Payable   | 225,000   | 225,000   |
| Loans from Stockholders   | 199,173   | 165,167   |
| Notes Payable   | 197,058   | 200,628   |
| Stock Settlement Payable  | 124,578   | 124,578   |
| Deferred Revenue  | 215,976   | 398,078   |
| Total Current Liabilities   | 1,881,855 | 2,115,039 |
| Long-Term Liabilities   |           |           |
| Long-Term Portion of Notes Payable  | 76,231    | 103,428   |
| Total Liabilities   | 1,958,086 | 2,218,467 |
| Stockholders' Deficit   |           |           |
| Convertible Preferred Stock, Authorized 10,000,000 Shares, \$.01 Par Value,<br>Issued and Outstanding 2,989,647 | 29,896    | —         |
| Issued and Outstanding 1,489,647  | —         | 14,896    |
| Common Stock, Authorized 950,000,000 Shares, \$.001 Par Value,  |           |           |

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|   |              |              |
|---|--------------|--------------|
| Issued and Outstanding 170,421,178          | 170,421      | —            |
| Issued and Outstanding 131,179,400          | —            | 131,179      |
| Stock Settlement in Process                 | (124,578 )   | (124,578 )   |
| Common stock issuable (12,000,000 shares)   | 267,000      | —            |
| Additional Paid in Capital                  | 23,748,391   | 22,806,669   |
| Accumulated Deficit                         | (25,602,945) | (24,714,923) |
| Total Stockholders' Deficit                 | (1,511,815 ) | (1,886,757 ) |
| Total Liabilities and Stockholders' Deficit | \$446,271    | \$331,710    |

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View Systems, Inc. and Subsidiaries  
Consolidated Statements of Operations

|   | For the Years Ended<br>December 31, |                |
|---|-------------------------------------|----------------|
|   | 2012                                | 2011           |
| Revenues  |                                     |                |
| Products sales and installation                         | \$745,852                           | \$256,563      |
| Revenue from extended warranties                        | 104,604                             | 121,614        |
| Total revenue   | 850,456                             | 378,177        |
| Cost of Sales   | 420,543                             | 158,973        |
| Gross Profit  | 429,913                             | 219,204        |
| Operating Expenses                                      |                                     |                |
| General and Administrative                              | 361,393                             | 370,358        |
| Professional Fees                                       | 623,352                             | 281,930        |
| Bad Debt Expense  | —                                   | 7,235          |
| Salaries and Benefits                                   | 312,180                             | 247,483        |
| Total Operating Expenses                                | 1,296,925                           | 907,006        |
| Loss from Operations                                    | (867,012 )                          | (687,802 )     |
| Other Income (Expense)                                  |                                     |                |
| Gain (Loss) from on Renegotiated Debt                   | 41,010                              | (83,601 )      |
| Loss from Impairment                                    | —                                   | (885,233 )     |
| Interest Expense  | (62,020 )                           | (104,383 )     |
| Total Other Income (Expense)                            | (21,010 )                           | (1,073,217 )   |
| Net Loss  | \$(888,022 )                        | \$(1,761,019 ) |
| Net Loss Per Share (Basic and Diluted)                  | \$(0.01 )                           | \$(0.02 )      |
| Weighted Average Shares Outstanding (Basic and Diluted) | 157,505,068                         | 114,385,592    |

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View Systems, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Deficit (Unaudited)

|  | Preferred |        | Common      |          | Stock<br>Issuable | Treasury<br>Stock | Stock<br>Settlement<br>in Process<br>- Note 13 | Additional<br>Paid-in<br>Capital | Retained              |
|--|-----------|--------|-------------|----------|-------------------|-------------------|--|----------------------------------|-----------------------|
|  | Shares    | Amount | Shares      | Amount   |                   |                   |  |                                  | Earnings<br>(Deficit) |
|  |           |        |             |          |                   |                   |  |                                  | "RESTATED"            |
| Balance,<br>December 31,<br>2010   | 89,647    | \$896  | 97,410,189  | \$97,410 | \$-               | \$-               | \$(163,366)                                    | \$22,538,400                     | \$(22,953,904)        |
| Common stock<br>issued in<br>payment<br>of accounts<br>payable, notes<br>payable and<br>interest     | -         | -      | 35,769,211  | 35,769   | -                 | -                 | -  | 215,557                          | -                     |
| Preferred stock<br>issued for<br>services, notes<br>and loans<br>payable and<br>accrued<br>interest  | 1,400,000 | 14,000 | -           | -        | -                 | -                 | -  | 101,500                          | -                     |
| Shares<br>returned and<br>cancelled in<br>conjunction<br>with an<br>acquisition that<br>was reversed | -         | -      | (2,000,000) | (2,000)  | -                 | -                 | -  | (10,000)                         | -                     |
| Pay down<br>stock<br>settlement in<br>process  | -         | -      | -           | -        | -                 | -                 | 38,788   | (38,788)                         | -                     |
| Net loss for the<br>year ended<br>December 31,   | -         | -      | -           | -        | -                 | -                 | -  | -                                | (1,761,019)           |

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|   |           |          |             |           |           |     |             |              |                |
|---|-----------|----------|-------------|-----------|-----------|-----|-------------|--------------|----------------|
| 2011  |           |          |             |           |           |     |             |              |                |
| Balance,<br>December 31,<br>2011  | 1,489,647 | 14,896   | 131,179,400 | 131,179   | -         | -   | (124,578)   | 22,806,669   | (24,714,923)   |
| Common stock<br>issued for cash   | -         | -        | 16,152,778  | 16,153    | -         | -   | -           | 306,347      | -              |
| Common stock<br>issued in<br>payment of<br>services,<br>accounts<br>payable,<br>deferred<br>compensation<br>and accrued<br>interest | -         | -        | 23,089,000  | 23,089    | -         | -   | -           | 488,912      | -              |
| Preferred<br>shares issued in<br>payment of<br>services and<br>accounts<br>payable  | 1,500,000 | 15,000   | -           | -         | -         | -   | -           | 146,463      | -              |
| Common stock<br>issuable<br>(12,000,000<br>shares)  | -         | -        | -           | -         | 267,000   | -   | -           | -            | -              |
| Net loss for the<br>period ended<br>December 31,<br>2012  | -         | -        | -           | -         | -         | -   | -           | -            | (888,022)      |
| Balance,<br>December 31,<br>2012  | 2,989,647 | \$29,896 | 170,421,178 | \$170,421 | \$267,000 | \$- | \$(124,578) | \$23,748,391 | \$(25,602,945) |

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View Systems, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows

|  | For the Years Ended |               |
|--|---------------------|---------------|
|  | December 31,        |               |
|  | 2012                | 2011          |
| Cash Flows from Operating Activities:                |                     |               |
| Net Loss   | \$(888,022)         | \$(1,761,019) |
| Adjustments to Reconcile Net Loss to Net Cash        |                     |               |
| Used in Operations:                                  |                     |               |
| Depreciation & Amortization                          | 14,976              | 124,219       |
| Common Stock Issued for Services and Compensation    | 479,396             | 155,065       |
| Preferred Stock Issued for Services and Compensation | 44,297              |               |
| Bad Debt Expense                                     | —                   | 7,235         |
| (Gain) Loss from Renegotiated Debt                   | (41,010 )           | 83,601        |
| Interest Expense Paid with Stock                     | 15,000              | —             |
| (Gain) from Dispositions of Assets                   | —                   | (338 )        |
| Loss from Impairment                                 | —                   | 885,233       |
| Change in Operating Assets and Liabilities:          |                     |               |
| (Increase) Decrease in Cash from:                    |                     |               |
| Accounts Receivable                                  | 36,547              | (7,008 )      |
| Inventories  | 19,284              | (158,625 )    |
| Prepaid Expenses                                     | 29,100              | (29,100 )     |
| Increase (Decrease) in Cash from:                    |                     |               |
| Accounts Payable and Accrued Expenses                | 211,811             | 262,283       |
| Deferred Compensation                                | (47,411 )           | 75,514        |
| Payroll Taxes Accrued and Withheld                   | 18,490              | 61,075        |
| Accrued Interest                                     | 27,045              | 41,477        |
| Deferred Revenue                                     | (182,102)           | 239,808       |
| Net Cash Used in Operating Activities                | (262,599)           | (20,580 )     |
| Cash Flows from Financing Activities:                |                     |               |
| Proceeds from sales of common stock                  | 322,500             | —             |
| Proceeds from Stockholders Loans                     | 49,006              | 108,206       |
| Term Loan Repayments                                 | (21,894 )           | (22,963 )     |
| Payments on Stock Settlement in Process              | —                   | (38,788 )     |
| Principal Reductions on Equipment Notes Payable      | (8,873 )            | (5,168 )      |
| Net Cash Provided by Financing Activities            | 340,739             | 41,287        |
| Increase in Cash                                     | 78,140              | 20,707        |



|                             |           |          |
|-----------------------------|-----------|----------|
| Cash at Beginning of Period | 29,041    | 8,334    |
| Cash at End of Period       | \$107,181 | \$29,041 |

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View Systems, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows (Continued)

|   | For the Years Ended |          |
|---|---------------------|----------|
|   | December 31,        |          |
|   | 2012                | 2011     |
| Cash Paid For:  |                     |          |
| Interest  | \$680               | \$3,625  |
| Income Taxes  | \$—                 | \$—      |
| Non-Cash Investing and Financing Activities:                |                     |          |
| Notes payable paid down with common stock                   | \$—                 | \$37,000 |
| Accrued interest paid with common stock                     | \$60,000            | —        |
| Loans from stockholders paid with common stock              | \$15,000            | \$70,500 |
| Accounts payable and accrued expense paid with common stock | \$137,001           | \$20,660 |
| Note payable paid with return of vehicle                    | \$—                 | \$15,728 |
| Deferred compensation paid with common stock                | \$43,338            | —        |
| Prepaid services paid with common stock                     | \$285,000           | —        |
| Prepaid services paid with preferred stock                  | \$118,125           | —        |
| Accounts payable paid with issuable stock                   | \$10,104            | —        |

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. (the “Company”) designs, develops and sells computer software and hardware used in conjunction with surveillance capabilities. The technology utilizes the compression and decompression of digital inputs. In March 2002, the Company acquired Milestone Technology, Inc., which has developed a concealed weapons detection portal. In July 2009, the Company acquired FibreXpress, Inc., which is a company that specializes in developing and selling equipment and components for the fiber optic and communication cable industries.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Milestone Technology, Inc. and FibreXpress, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported

amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Accounts Receivable

Accounts receivable consists of amounts due from customers. Management periodically reviews the open accounts and makes a determination as to the ultimate collectability of each account. Once it is determined that collection is in doubt the account is written off as a bad debt. In order to provide for accounts that may become uncollectible in the future, the Company has established an allowance for doubtful accounts. The balance of the allowance for doubtful accounts is based on management's judgment and the Company's prior experience with managing accounts receivable.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases revenue is considered earned when the product is shipped to the customer, installed (if necessary) and accepted by the customer as a completed sale. The concealed weapons detection system and the digital video system each require installation and training. The customer can engage us for installation and training, which is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training and acceptance by the customer. However, the customer can also self-install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Customers can purchase extended warranties, which provide for replacement or repair of the unit beyond the period provided by the unconditional warranty. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. The revenue from warranties is recognized on a straight line bases over the period covered by the warranty. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectability is reasonably assured.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). As of December 31, 2012 and 2011 the Company's inventory consisted of a number of assembled units as well as unassembled parts of product. .

Property and Equipment

Property and equipment is recorded at cost and depreciated over their useful lives, using the straight-line and accelerated depreciation methods. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the results of operations. The useful lives of property and equipment for purposes of computing depreciation are as follows:

Equipment 5-7 years

Software tools 3 years

Repairs and maintenance charges which do not increase the useful lives of assets are charged to operations as incurred. Depreciation expense for the periods ended December 31, 2012 and 2011 amounted to \$14,976 and \$19,259, respectively.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Intangible Assets – Licenses and Intellectual Property

In connection with the acquisition on Milestone, the Company received, among other things, various licenses to use software that had been developed by INEEL (Idaho National Engineering and Environmental Laboratory). In addition to the right to use this software, the Company also acquired, as a part of the Milestone purchase, various technical manuals, drawings, plans for hardware design and systems configuration and corporate expertise which, in total, comprised the intellectual property which is a significant element of the current secure scan system. Milestone transferred the licenses to View Systems, Inc., and in November 2003, two separate licenses were signed in the name of View Systems with Bechtel BWXT Idaho, LLC (BBWI).

BBWI is the management and operating contractor of the INEEL under its Contract No. DE-AC07-99ID13727 (“M&O Contract”) and has the authorization, right and ability to grant the license of the Agreement. The licenses allow View Systems to commercially develop, manufacture, use, sell and distribute processes and products embodying the U.S. Patent No. 6.150.810 “Method for Detecting the Presence of a Ferromagnetic Object Using Maximum and Minimum Magnetic Field Data”, and U.S. Patent Application S/N 10/623,372, “Communication Systems, Camera Devices, and Communication Methods”.

The valuation of the intellectual property in total consists of the cost of acquiring Milestone, that is, the difference of the cost paid for the entity vs. the value of the underlying assets and liabilities which was originally determined to be \$1,626,854. The cost was being amortized on a straight line basis over the remaining useful lives of the underlying patents, which at the date of the purchase was 15.5 years. Amortization expense for the periods ended December 31, 2012 and 2011 was \$0 and \$104,960, respectively. The intellectual property was also analyzed to determine if any impairment existed at December 31, 2011. As of December 31, 2011 it was determined that the asset was totally impaired which resulted in the recognition of an impairment loss of the unamortized balance of \$682,226.

Income Taxes

Income taxes are recorded under the assets and liabilities method whereby deferred tax assets and liabilities are recognized for the future tax consequences, measured by enacted tax rates, attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

The Company files income tax returns in the U.S. federal jurisdictions, and in various state jurisdictions. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years prior to 2009. the company policy is to recognize interest related to unrecognized tax benefits as income tax expense. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

#### Research and Development

Research and development costs are expensed as incurred.

#### Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the periods ended December 31, 2012 and 2011 were \$10,808 and \$4,254, respectively.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nonmonetary Transactions

Nonmonetary transactions are accounted for in accordance with ASC 845 “Nonmonetary Transactions” which requires the transfer or distribution of a nonmonetary asset or liability to be based generally, on the fair value of the asset or liability that is received or surrendered, whichever is more clearly evident.

Financial Instruments

For most financial instruments, including cash, accounts receivable, accounts payable and accruals, management believes that the carrying amount approximates fair value, as the majority of these instruments are short-term in nature.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholder by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding. Potential common shares consist of shares issuable upon the exercise of stock

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options and warrants in addition to shares that may be issued in the event that convertible debt is exchanged for shares of common stock. The calculation of the net loss per share available to common stockholders for the periods ended December 31, 2012 and 2011 does not include potential shares of common stock equivalents, as their impact would be antidilutive. The following reconciles amounts reported in the financial statements:

|   | Income<br>(Numerator) | Shares<br>(Denominator) | Per-share<br>Amount |
|---|-----------------------|-------------------------|---------------------|
| Year ended December 31, 2012  |                       |                         |                     |
| Loss from operations which is the amount that is available to common stockholders | \$ (888,022)          | 157,505,608             | \$(0.01)            |
| Year ended December 31, 2011  |                       |                         |                     |
| Loss from operations which is the amount that is available to common stockholders | \$ (1,761,019)        | 114,385,592             | \$(0.02)            |

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended December 31, 2012 and 2011, the Company incurred net losses of \$888,022 and \$1,761,019, respectively. In addition, certain notes payable have come due and the note holders are demanding payment.

Management is very actively working to cure these situations. It has implemented major plans to for the future growth and development of the Company. Management is in the process of renegotiating more favorable repayment terms on the notes payable and the Company anticipates that these negotiations will result in extended payment plans. In addition, during 2012 and 2011, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It has established new international markets which it believes will be the source for sales growth in the very near future. It also was able to reduce the per-unit cost of manufacturing its products. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products that appear to have greater sales potential.

Historically, the Company has financed its operations primarily through private financing; however, increases in sales revenue during 2012 made contributions to working capital. It is management's intention to finance operations during the remainder of 2013 primarily through increased sales although there will still be a need for additional equity financing. In addition, management is actively seeking out mergers and acquisitions which would be beneficial to the future growth of the Company. There can be no assurance, however, that this financing will be successful and the Company may be required to further reduce expenses and scale back operations.

As previously noted the Company is currently in default on a \$50,000 loan to a stockholder and it is also in default under the terms of its arrangement with CRA, Inc. in the estimated amount of \$63,561.

The consolidated financial statements presented above and the accompanying Notes have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future, and does not include any adjustments to reflect possible future effects on the recoverability

and classification of assets, or the amounts and classification of liabilities that may result from the outcome of any extraordinary regulatory action, which would affect our ability to continue as a going concern.

Due to the conditions and events discussed above, there is substantial doubt about the Company's ability to continue as a going concern.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

**3. NEW ACCOUNTING PRONOUNCEMENTS**

The Financial Accounting Standards Board (“FASB”) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and concluded that there are no new accounting standards are applicable to the Company.

**4. INTELLECTUAL PROPERTY**

In prior years the Company had advanced non-interest bearing funds of \$147,507 to a related corporation, The Fight Zone, Inc., (formerly Geoscopix, Inc.), which at one time was controlled by the Chief Executive Officer of the Company. During 2010 that control was lost due to the restructuring of The Fight Zone, Inc. During periods prior to the emergence of The Fight Zone, Inc. that company, which was then known as Geoscopix, Inc. had been developing a three dimensionally lensed camera system which was titled as The Gator. The Gator had promising potential industrial applications particularly in the construction industry.

Subsequently it was determined that The Fight Zone, Inc. was not capable of repaying the debt to the Company in cash. However, in settlement of the debt; it has deeded the intellectual property known as The Gator to View Systems, Inc. View Systems, Inc. planned to continue the development of the product and to bring it to market as soon as possible. Accordingly the asset which was formerly reflected as the receivable from The Fight Zone, Inc. were replaced and reclassified as intellectual property.

During the year ended December 31, 2011 it was determined that the value of the intellectual property was totally impaired primarily because the product was not completely ready for market and that management could not reasonably expect that there would be sales of The Gator in the near future. Management does plan to develop the product and offer it for sale in the future.

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**VIEW SYSTEMS, INC.**

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

## 5. NOTES PAYABLE

Notes payable as of December 31, 2012 and December 31, 2011 consists of the following:

|  | 2012             | 2011             |
|--|------------------|------------------|
| Stockholder  |                  |                  |
| An unsecured loan from a stockholder which is payable on demand with interest at 12%. The note was dated November 1, 2007 and the note matures and the principal is payable upon the demand of the lender.                           | 116,000          | 116,000          |
| Lafayette Community Bank   |                  |                  |
| A term loan secured by a stockholder, payable in monthly installments of \$2,587 commencing in December 25, 2009 but refinanced in May 2011. The loan is due in full on May 18, 2016 and interest accrues monthly at 7.5% per annum. | 97,185           | 119,079          |
| Stockholder  |                  |                  |
| Demand loan payable with interest at 5% per month dated September 18, 2009. The loan is secured by the Company's accounts receivable. The note was payable in full on December 17, 2009 so this debt is currently in default         | 50,000           | 50,000           |
| Chase  |                  |                  |
| Equipment loans to finance the purchases of a truck, payable monthly in installments of \$533, which include interest at 5.34% per annum. During 2011 one truck was disposed of and the debt was reduced accordingly.                | 10,104           | 18,977           |
| <b>TOTAL</b>   | <b>\$273,289</b> | <b>\$304,056</b> |
| Less current portion   | 197,058          | 200,628          |



Non-current portion

\$76,231 \$103,428

Principal payments for the next five years:

|            |           |
|------------|-----------|
| 2013       | 197,058   |
| 2014       | 31,103    |
| 2015       | 29,098    |
| 2016       | 16,030    |
| Thereafter | 0         |
| TOTAL      | \$273,289 |

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**VIEW SYSTEMS, INC.**

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

**6. INCOME TAXES**

For income tax purposes the Company has net operating loss carry forwards of \$24,961,000 as of December 31, 2012 that may be used to offset future taxable income. In the instance of future corporate acquisitions, the net operating losses may be used to offset the future taxable income of a qualifying subsidiary corporation which meets IRS regulations governing such situations. The losses have accumulated since 1998 and they will start to expire in 2018.

The components of the net deferred tax asset as of December 31, 2012 are as follows:

|  |               |
|--|---------------|
| Effect of net operating loss carry forward | \$ 10,484,000 |
| Less evaluation allowance                  | (10,484,000)  |
| Net deferred tax asset                     | \$ -          |

The components of income tax expense (benefit) are as follows:

|  | Year ended           |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2012 | December 31,<br>2011 |
| Net loss per financial statements which approximates net loss per income tax returns | \$ (888,022)         | \$ (1,761,019)       |
| Income tax expense (benefit) applying prevailing Federal and state income tax rates  | (372,969)            | (739,628)            |
| Less valuation allowance   | 372,969              | 739,628              |
| Net income tax expense (benefit)   | \$ -                 | \$ -                 |

Net income tax benefit is not recognized at this time because there is no reasonable expectation that the benefit will be realized in the future.

The Company has adopted accounting rules that prescribe when to recognize and how to measure the financial statement effects, if any, of income tax positions taken or expected on its income tax returns. These new rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than fifty percent (50%) probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying balance sheet along with any interest and penalties that would result from that assessment. Should any such penalties and interest be incurred, the Company's policy would be to recognize them as operating expenses.

Due to continuous losses from operations the Company has assigned a full valuation allowance against its deferred tax assets.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

7. CONVERTIBLE PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of services. The issuance had been previously authorized by the Board of Directors. Each share of Series A Preferred Stock has a liquidation preference, in the event of liquidation of the corporation, of \$0.01 per share before any payment or distribution is made to the holders of common stock.

During 2008 the Board of Directors approved a reverse split of the stock in which one new share of preferred stock was issued in exchange for each 80 shares of stock outstanding. Accordingly, the total issued of preferred stock was adjusted from 7,171,725 shares to 89,647 shares. The par value and the total authorized shares did not change.

Effective in 2010 the initial issuance of preferred of Series A Preferred can be converted into common stock in the ratio of 15:1. During 2011 the Board of Directors authorized the issuance of an additional 1,400,000 shares of Series A Preferred Stock in payment of a loan from a shareholder in the amount of \$64,000 and also in payment of services in the amount of \$34,000. These additional shares can be converted to common stock in 2013. Each share is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote on the common stock shareholder.

During 2012 the Board of Directors authorized the issuance of an additional 1,500,000 shares of Series A Preferred Stock in payment of deferred compensation and current compensation in the amount of \$161,463.

8. OPERATING LEASE

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The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a non-cancellable operating lease which expires in December 2013. The original base rent was \$3,077 per month with a 3% annual rent escalator clause. The current monthly rent is \$3,464. Rent expense, which includes the Caton Center property as well as some other short-term leases, was \$45,941 and \$49,071 for the periods ended December 31, 2012 and 2011, respectively.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

9. STOCK BASED COMPENSATION

During the periods ended December 31, 2012 and 2011 the Company granted restricted stock to independent contractors and consultants for payment of services.

On April 2, 2010 the Company adopted its 2010 Equity Incentive Plan. Reserved for equity issuances under the Equity Incentive Plan are 50,000,000 shares of our common stock. During 2011 14,116,433 shares of common stock were issued under the provisions of the 2010 Equity Incentive Plan for which \$92,065 of expenses were recognized.

On June 1, 2010 the Company adopted its 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Service Provider Stock Compensation Plan are 50,000,000 shares of our common stock. No equity issuances were made during the reporting period from the 2010 Service Provider Stock Compensation Plan.

During 2012 and 2011, the Company issued the following compensatory shares outside of its existing Stock Option and Restricted Share Plans at the discretion of the Board of Directors:

For the year ended December 31, 2012 14,250,000 shares of common stock were issued for \$285,000 of expenses and prepaid expenses.

For the year ended December 31, 2012 1,500,000 shares of preferred stock were issued for \$161,463 of expenses and liabilities.

For the year ended December 31, 2011 5,000,000 shares of common stock were issued for which \$30,000

of expenses were recognized

For the year ended December 31, 2011 500,000 shares of preferred stock were issued for which \$33,000 of expenses were recognized.

In addition, shares of common stock were also issued in 2012 in payment of accounts payable amounting to \$28,500, in payment of accrued compensation of \$108,501, in payment of notes payable of \$15,000 and accrued interest of \$75,000..

In addition, shares of common stock were also issued in 2011 in payment of accounts payable amounting to \$20,660 and in payment of notes payable of \$43,500, including interest.

Independent contractors and consultants' expense was based on the estimated value of services rendered or the value of the common stock issued, if more reliably determined.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Stock Options and Warrants

On April 2, 2010, the Company adopted its 2010 Equity Incentive Plan, which authorized, among other forms of incentives, the issuance of stock options. Reserved for equity issuances under the 2010 Equity Incentive Plan are 50,000,000 shares of our common stock. No equity issuances have been made from the 2010 Equity Incentive Plan. Stock options, which may be tax qualified and non-qualified, are exercisable for a period of up to ten years at prices at or above market prices as established on the date of the grant.

10. RELATED PARTY TRANSACTIONS

During the periods reflected on this report certain shareholders made cash advances to the Company to help with short-term working capital needs. The total additions to loans from stockholders with unstructured payment plans amounted to \$93,206 during 2011 and \$34,006 during the year ended December 31, 2012. The total balance due on unstructured loans from shareholders amount to \$199,173 at December 31, 2012 and \$150,167 at December 31, 2011. Loans from stockholders made with repayment terms are described in Note 5 above.

During the year ended December 31, 2012 the Company's Chief Executive Officer was issued 1,000,000 shares of convertible preferred stock as a payment for compensation accrued during 2012 and 2011 in the amount of \$43,338. He was also issued 1,839,000 shares of common stock as a payment for compensation accrued during 2011 and 2012 in the amount of \$108,501. In addition, in December 2012 the Board of Directors authorized the issuance of 8,000,000 shares of common stock to the Chief Executive Officer as payment for compensation accrued during 2011 and 2012 in the amount of \$160,000. These shares were issued subsequent to December 31, 2012 and are reflected on the financial statements as issuable common stock.

During the year ended December 31, 2011 the Company's Chief Executive Officer was issued 1,000,000 shares of convertible preferred stock as a repayment of a loan to the Company in the amount of \$64,000. In addition, he was

issued 5,000,000 shares of common stock valued at \$30,000 as compensation.

#### 11. STOCK SETTLEMENT IN PROCESS

During 2006 the Company negotiated a loan from an individual in the amount of \$100,000. Under the terms of the loan it was to be repaid in full within one year together with interest at the rate of 15% per annum. The Company was unable to pay the loan when due and under the threat of litigation the note holder was given 3,500,000 shares of common stock. The stock was issued on January 28, 2010. At that time the principal, accrued interest and legal fees amounted to \$163,366. Under the terms of a court ordered stipulation agreement if the note holder was unable to liquidate the stock in full payment of the stipulated amount then the Company would be obligated to issue more stock to him to make up for the shortage. As a part of the agreement the note holder is required to account for proceeds realized from the sales of stock. The note holder has yet to report any stock sales so this settlement is considered to be in process.

During the year ended December 31, 2011 \$38,788 was levied against the Company's bank accounts as a result of a legal action brought to force collection of the balance. The note holder's contention was that stock sales had fallen well short of the balance due and thus he was due to be paid. While the Company had a complaint that they had not been provided with any information regarding sales of stock management was unable to stave off the forced levy. As a result of the levy the debt balance as of December 31, 2011 was reduced to \$124,578.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

12. LOSS FROM IMPAIRMENT

The Company realized impairment losses during the year ended December 31, 2011 as follows:

|                                  |           |
|----------------------------------|-----------|
| Intellectual property-licenses   | \$682,226 |
| Intellectual property-The Gator  | 147,507   |
| Investment in Visisys Technology | 55,500    |
|                                  | \$885,233 |

13. ISSUABLE COMMON STOCK

During December 2012 the Board of Directors authorized the issuance of 12,000,000 shares of common stock in payment of services in the amount of \$267,000. The certificates were issued subsequent to December 31, 2012.

14. JOINT VENTURE PROFIT SHARING

During 2011 the Company entered into an agreement with CRA, Inc. regarding a sale of 60 scanners to a municipal school system. Under the terms of the deal CRA, Inc. purchased all of the materials and paid substantially all of the cost, View Systems, Inc. assembled the products, shipped the scanners for installation and billed the school system.

The terms of the agreement provide that each party is to share equally in the profits. As of December 31, 2011 the Company owed \$106,366 to CRA, Inc. which included reimbursements for materials and for CRA's share of the profit in the amount of \$27,345. As of December 31, 2012 the Company has estimated that it owes CRA \$63,561 which is CRA's share on the profit is reflected on the financial statements as a component of cost of sales. However, since the project is not completed as of December 31, 2012 the ultimate calculation of profit cannot be made until the job is considered completed. The Company is technically in default under the terms of the agreement because of late payments.

## 15. CONCENTRATIONS

During the years ended December 31, 2012 and 2011 the Company received 22% and 65% of its product sales revenue for a single state municipal agency. If a significant decrease in this revenue occurs in subsequent years it could have a material effect on the financial statements.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

**STEGMAN & COMPANY**

On June 21, 2012, Seale and Beers, CPAs, LLC was dismissed as our independent accountant. Because we have no standing audit committee, our full Board of Directors participated in and approved the decision to change independent accountants. Seale and Beers, CPAs, LLC was initially engaged on March 30, 2012 to serve as our independent accountant for the year ended December 31, 2011. Seale & Beers, CPAs, LLC was dismissed as our independent accountant prior to completing its audit of our financial statements for the year ended December 31, 2011 and prior to rendering an opinion on such financial statements for such period. In connection with its audit of financial statements for the year ended December 31, 2011, there have been no disagreements with Seale & Beers, CPAs, LLC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Seale & Beers, CPAs, LLC would have caused it to make reference thereto in its report on the financial statements, except as discussed in (iii) below.

Since our engagement of Seale & Beers, CPAs, LLC on March 30, 2012 and through the date of the Current Report, there have been certain reportable events with us as set forth in Item 304(a)(i)(v) of Regulation S-K, as follows. During the course of the audit of our 2011 financial statements, Seale & Beers, CPAs, LLC recommended that we record several adjustments to our financial statements to properly apply accounting principles generally accepted in the United States ("U.S. GAAP") to several of our 2011 transactions, that if not recorded would have prevented Seale & Beers, CPAs, LLC from rendering an unqualified audit report on our financial statements. We agreed with all of those recommendations and have recorded such recommended adjustments.

Additionally, during the course of the audit of our 2011 financial statements, Seale & Beers, CPAs, LLC recommended that we perform an internal review of 100% of our 2011 revenue transactions to ensure that revenue was recognized pursuant to our internal accounting policies and accounting principles generally accepted in the United States ("U.S. GAAP"), that if not performed would have prevented Seale & Beers, CPAs, LLC from rendering an unqualified audit report on our financial statements. Additionally, Seale & Beers, CPAs, LLC had advised us of the need to expand significantly the scope of the audit as it relates to revenue recognition, that if further investigated, may impact the fairness of our 2011 interim and annual financial statements.

As a result of Seale & Beers, CPAs, LLC's recommendations with respect to revenue recognition, we engaged an outside consultant located in Bethesda, Maryland (close to our operations) to perform a review of 100% of our 2011 revenue arrangements and to identify any misapplication of US GAAP with respect to those arrangements. During the course of this review, we determined that our revenue arrangements (and the accounting for those arrangements) are more complicated than we previously thought and require greater auditing resources to attest in a timely manner. As a result of these complexities, we determined it necessary to engage an independent accountant that is located close to our operations in Baltimore, Maryland, and therefore is more readily accessible to us than is Seale & Beers, CPAs, LLC. Accordingly, our Board of Directors determined to engage Stegman & Company, as our principal independent accountant.

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Seale & Beers, CPAs, LLC has advised us that its audit procedures, especially those with respect to revenue recognition, have not been resolved to Seale & Beers, CPAs, LLC's satisfaction prior to its dismissal. We requested that Seale & Beers, CPAs, LLC furnish us with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter was filed as Exhibit 16.1 to the Form 8-K.

On June 22, 2012, we engaged Stegman & Company as our new registered independent public accounting firm. Stegman & Company is headquartered in Baltimore, Maryland and has 12 partners and 25 staff members (as reported by the Public Company Accounting Oversight Board in its public report on Stegman & Company dated May 27, 2010). During the two most recent fiscal years and the interim periods preceding the engagement, we have not consulted Stegman & Company regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or (ii) any matter that was either the subject of a disagreement as that term is used in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K or a reportable event as that term is used in Item 304(a)(1)(v) and the related instructions to Item 304 of Regulation S-K.

This decision to engage Stegman & Company was approved by our full Board of Directors. Because we have no standing audit committee, our full Board of Directors participated in and approved the decision to change independent accountants.

#### **SEALE AND BEERS, CPAs, LLC**

On March 18, 2012, Robert L. White & Associates, Inc. was dismissed as our certifying accountant. On March 30, 2012, we engaged Seale and Beers, CPAs, LLC, as our principal independent accountant. This decision to engage Seale and Beers, CPAs, LLC, was ratified by the majority approval of our full Board of Directors. Robert L. White & Associates, Inc.'s accountant's report on the financial statements for the years ended December 31, 2009 and 2010 did not contain an adverse opinion or a disclaimer of opinion, nor were its reports qualified or modified as to uncertainty, audit scope, or accounting principles, but with the exception that, in its reports on our financial statements for the years ended December 31, 2009 and December 31, 2010, Robert L. White & Associates, Inc. reported that our financial statements have been prepared assuming that we will continue as a going concern. As the certifying accountant's opinion pertained to the years ended December 31, 2009 and 2010, the reason for this opinion was that we had an accumulated deficit of \$22,953,904 at December 31, 2010. Additionally, for the year ended December 31, 2010, we had a net loss of \$555,145. In the opinion of Robert L. White & Associates, Inc., these conditions raise substantial doubt about our ability to continue as a going concern. Because we have no standing audit committee our full Board of Directors participated in and approved the decision to change independent accountants.

In connection with its review of financial statements through April 10, 2012, there have been no disagreements with Robert L. White & Associates, Inc. on any matter of accounting principles or practices, financial statement disclosure,

or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Robert L. White & Associates, Inc. would have caused it to make reference thereto in its report on the financial statements. During the two most recent audit periods and the interim period up to April 10, 2012, there have been no reportable events with us as set forth in Item 304(a)(i)(v) of Regulation S-K. We requested that Robert L. White & Associates, Inc. furnish us with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter was filed as Exhibit 16.1 to the Form 8-K.

On March 30, 2012, we engaged Seale and Bears, CPAs, LLC as our new registered independent public accounting firm. During the two most recent fiscal years and the interim periods preceding the engagement, we had not consulted Seale and Bears, CPAs, LLC regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or (ii) any matter that was either the subject of a disagreement as that term is used in Item 304 (a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K or a

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reportable event as that term is used in Item 304(a)(1)(v) and the related instructions to Item 304 of Regulation S-K.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer/Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of December 31, 2011. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining internal control over financial reporting for our internal control system was designed 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. Internal control over our financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions . provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial
- (2) statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion or improper overriding of controls. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSD) in *Internal-Control-Integrated Framework* and implemented a process to monitor and assess both the design and operating effectiveness of our internal controls. Based on this assessment, management believes that as of December 31, 2012, our internal control over financial reporting was not effective.

On July 30, 2012, our management concluded that it was necessary to correct a revenue recognition error uncovered in the audit of our financial statements for the year ended December 31, 2011. Due to accounting errors uncovered in the audit of our financial statements for the year ended December 31, 2011, we have restated our financial statements as of and for the period ended December 31, 2010 to reflect the correction of: (i) an understatement of deferred income that resulted from incorrectly allocating the revenue received under extended warranty arrangements over the life of the warranty; (ii) an overstatement of revenue due to recognition of sales prior to the installation of the products, and (iii) the classification of

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common stock that was issued to the holder of a note payable. We have taken steps to correct the error in financial reporting and has revised its interim financial disclosures for periods after December 31, 2010. In conjunction with the correction and restatement to our financial statements for the year ended December 31, 2010, we are also correcting and restating our financial statements included in Forms 10-Q filed for the quarterly periods ending March 31, 2011, June 30, 2011, and September 30, 2011.

As a result of the detection of accounting errors, we have identified material weakness in our internal controls over financial reporting, that, if not corrected, could result in material misstatements in our financial statements. The material weakness identified resulted from inadequate oversight by management and accounting personnel into the process of recognizing revenue in accordance with generally accepted accounting principles.

We have instituted a remediation plan which involves reeducating our management, the accounting staff, and the administrative staff as to the elements of a completed sale. We increased the oversight of the process by increasing the frequency of involvement of outside accounting consultants. Internal systems are being put into place to track and document significant dates, such as delivery, installation and customer acceptance. In addition, the bookkeeping system has been modified so that all sales of extended warranties are automatically recorded as deferred revenue and that the amount of revenue that is ultimately recognized as warranty revenue is as the result of an analysis of the significant aspects of the warranty such as coverage and period.

#### **Changes in Internal Control Over Financial Reporting**

Our management has evaluated, with the participation of our Chief Executive Officer/Chief Financial Officer, changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the fourth quarter of 2012. In connection with such evaluation, there have been no changes to our internal control over financial reporting that occurred since the beginning of our fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. While there have been no changes, we have assessed our internal controls as being deficient and will be taking steps beginning in 2013 to remedy such deficiencies.

#### **ITEM 9B. OTHER INFORMATION.**

There are no further disclosures.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

**Directors and Executive Officers**

The following table includes the names and positions held of our executive officers and directors who served during the years ended December 31, 2010 and/or December 31, 2011 and their current ages:

| NAME               | AGE | POSITION  | DIRECTOR SINCE |
|--------------------|-----|---|----------------|
| Gunther Than       | 65  | Chief Executive Officer, Treasurer and Director | 1998           |
| Michael L. Bagnoli | 57  | Corp. Secretary and Director                    | 1999           |
| Martin Maassen     | 70  | Director  | 1999           |
| Reid Miles         | 51  | Director  | 2013           |

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**Gunther Than**, Director, Treasurer and Chief Executive Officer. Gunther Than was appointed Treasurer in July 2003 and has served as our Chief Executive Officer since September 1998. He served as our President from September 1998 to May 2003 and had served intermittently as Chairman of the Board from September 1998 to September 2003. Mr. Than was the founder, President and CEO of Real View Systems, Inc., a company that developed compression technology and computer equipment. Real View Systems was acquired by View Systems in 1998. Between March 2010 and December 2010, Mr. Than also served as an officer and director of Kalahari Greentech, Inc., a development stage manufacturer and distributor of solar power and wind energy electrical products, to which Mr. Than devoted less than 10 hours per week of his time. Mr. Than is a graduate of the University of Wisconsin.

**Michael L. Bagnoli**, Secretary and Director. Mr. Bagnoli became a Director in May 1999 and was appointed Secretary in June 2004. He holds degrees as a medical doctor and a dental specialist. Since 1988 he has practiced dentistry in the specialty area of oral and maxillofacial surgery for a physician group in Lafayette, Indiana. In his practice he introduced arthroscopy surgery along with the full scope of arthroplastic and total joint reconstruction. Mr. Bagnoli was founder, CEO and president of a successful medical products company, Biotek, Inc., which was sold in 1994.

**Martin Maassen**, Director. Mr. Maassen became a Director in May 1999. He formerly served as our Chairman of the Board from April 2000 to September 2002. From September 1995 to the present he is a staff physician at Lafayette Emergency Care, P.C. located in Lafayette, Indiana. He is board-certified in internal medicine and emergency medicine and has served as a staff physician in the emergency departments of Jackson County, Deaconess, Union and St. Elizabeth hospitals located in Indiana. In addition to practicing medicine, he maintains an expertise in computer technologies and their medical applications.

**Reid R. Miles**. Mr. Miles has over twenty years of experience in investment management and operational management. He has been active as a professional investor for over sixteen years during which he has invested in over thirty direct investments and managed numerous fund investments. Since 2005, Mr. Miles has been the founder and chief executive officer of Miles Howland & Co. LLC, a New York based investment management firm focused on the management of alternative asset investments. Prior to founding Miles Howland & Co LLC, from approximately 2001 through 2005, Mr. Miles was a managing director and partner of BV Group Ventures LLC. BV Group Ventures LLC is a diversified international investment management firm. From approximately 1996 through 2001, Mr. Miles was a founding partner and managing director at Blue Water Capital LLC, a venture capital firm. In addition to being an experienced investor, Mr. Miles is a proven business entrepreneur, manager and executive. He is currently a director of the following companies: CreditSights ([www.creditsights.com](http://www.creditsights.com)) an independent research firm focused on global credit markets and Tachyon Networks ([www.tachyon.com](http://www.tachyon.com)) a developer of satellite broadband communications solutions.

Mr. Miles graduated with honors from Claremont McKenna College in 1984. He also completed a management training program at IBM Corporation in 1986.

## **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

None of our directors, executive officers or control persons has been involved in any of the legal proceedings required to be disclosed in Item 401 of Regulation S-K, during the past five years.

## **CORPORATE GOVERNANCE MATTERS**

### **Audit Committee**

The board of directors has established an audit committee, and the functions of the audit committee are currently performed by our Corporate Secretary, with assistance by expert independent accounting personnel and oversight by the entire board of directors. We are not currently subject to any law, rule or regulation requiring that we establish or maintain an audit committee.

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**Board of Directors Independence.** Our board of directors currently consists of three members. We are not currently subject to any law, rule or regulation requiring that all or any portion of our board of directors include "independent" directors.

**Audit Committee Financial Expert.** Our board of directors has determined that we do not have an audit committee financial expert serving on our audit committee within the meaning of Item 407(d)(5) of Regulation S-K. In general, an "audit committee financial expert" is an individual member of the audit committee who (a) understands generally accepted accounting principles and financial statements, (b) is able to assess the general application of such principles in connection with accounting for estimates, accruals and reserves, (c) has experience preparing, auditing, analyzing or evaluating financial statements comparable to the breadth and complexity to the Company's financial statements, (d) understands internal controls over financial reporting and (e) understands audit committee functions.

We have not yet replaced our former audit committee financial expert, but we are engaged in finding a suitable replacement.

### **Code of Ethics**

We have not adopted a code of ethics for our executive officers, directors and employees. However, our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

### **Nominating Committee**

We have not yet established a nominating committee. Our board of directors, sitting as a board, performs the role of a nominating committee. We are not currently subject to any law, rule or regulation requiring that we establish a nominating committee.

### **Compensation Committee**

We have not established a compensation committee. Our board of directors, sitting as a board, performs the role of a compensation committee. We are not currently subject to any law, rule or regulation requiring that we establish a

compensation committee. During the last fiscal year, Mr. Gunther Than, an executive officer, participated in our board of directors' deliberations concerning executive officer compensation.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Commission. Officers, directors and greater than ten percent beneficial owners are required by Commission regulations to furnish us with copies of all forms they file pursuant to Section 16(a). Based solely on our review of the copies of such forms received and written representations from reporting persons required to file reports under Section 16(a), all of the Section 16(a) filing requirements applicable to such persons, with respect to fiscal 2011, appear not to have been complied with to the best of our knowledge.

#### **ITEM 11. EXECUTIVE COMPENSATION.**

Management has been compensated entirely in accrued salary, common stock, and reimbursement of fuel expense during the fiscal years ended December 31, 2012 and 2011. The cash value of Mr. Gunther Than's compensation was determined in negotiations with directors Drs. Maassen and Bagnoli and was determined based upon an informal survey of human resource firms as to the compensation awarded to chief executives in companies with similar revenues. Likewise, the cash value of Messrs. Michael Burton-Prateley's and William Paul Price's respective compensation was determined in negotiations with Mr. Than that were ratified by Drs. Maassen and Bagnoli. The Company's limited revenues have prevented its executive, Mr.

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Than, from receiving payment in cash for compensation for services. Mr. Than accrued \$120,000 in salary for 2012 and 2011.

We paid compensation to each of the directors and executive officers in the following amounts during fiscal year 2012:

| Name            | Salary | Position                                 |
|-----------------|--------|--|
| Gunther Than†   | \$ 0   | As Chairman of the Board, Director       |
|                 | \$ 0   | As Chief Executive Officer and Treasurer |
| Martin Maassen  | \$ 0   | As Director                              |
| Michael Bagnoli | \$ 0   | As Director                              |
|                 | \$ 0   | As Secretary                             |

† Mr. Than is reimbursed for his motor vehicle fuel expense. Mr. Than earns an executive salary of \$150,000, which is more fully discussed below in the Summary Compensation Table.

**SUMMARY COMPENSATION TABLE†‡**

| Name and Principal Position | Fiscal Salary | Bonus | Stock Awards | Option Awards | Nonequity Incentive Plan | Non-qualified Deferred Compensation | All Other Compensation | Total |
|-----------------------------|---------------|-------|--------------|---------------|--------------------------|-------------------------------------|------------------------|-------|
|                             | Year (\$)     | (\$)  | (\$)         | (\$)          | Plan                     | Deferred Compensation               | (\$)                   | (\$)  |
|                             |               |       |              |               |                          |                                     |                        |       |

(\$)

|   |      |           |          |    |           |
|---|------|-----------|----------|----|-----------|
| Gunther Than†<br>(Principal Chief Executive Officer,<br>President and Director)   | 2012 | \$120,000 | \$30,000 | \$ | \$150,000 |
|   | 2011 | 120,000   |          | 0  | 120,000   |
| Michael Bagnoli<br>(Secretary and Director)                                       | 2012 | 0         |          |    | 0         |
|   | 2011 | 0         |          |    | 0         |
| Martin Maassen<br>(Director)  | 2012 | 0         |          |    | 0         |
|   | 2011 | 0         |          |    | 0         |
| William Paul Price<br>(Vice President of Network Services<br>and Director) †† (1) | 2012 | -0-       |          |    | -0-       |
|   | 2011 | 6,000     |          |    | 6,000     |

† During fiscal year ended December 31, 2012, we paid an aggregate of \$355,563 to Mr. Than as executive compensation as follows: (i) cash in the amount of \$87,412; (ii) issuance of 1,839,000 shares of common stock on April 26, 2012 valued at \$108,151; (iii) issuance of 1,000,000 shares of Series A preferred stock on April 26, 2012 valued at \$43,338; and (iv) issuance of 8,000,000 shares of common

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stock on December 26, 2012 valued at \$160,000. Mr. Than also receives reimbursement of motor fuel expense.

†† The Company does not consider Mr. Price to be an executive officer, but he is included in this table because he is the only other management level employee.

‡ No director has been compensated for services as a director.

(2) Resigned as a Director in August 2011.

Payroll is accrued payable to Mr. Than at the rate of \$10,000 per month. Therefore his annual rate of pay is \$120,000.

## **EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS**

Mr. Than is our only executive officer and he has a written employment agreement. Mr. Than's current employment agreement was ratified as of December 1, 2009. Mr. Than's salary has been accrued as has his entitlement to partial compensation in common stock.

The following is a summary of the pertinent parts of Mr. Than's Employment Agreement:

We will pay Mr. Than a base salary of \$10,000.00 per month, subject to increase, but not decrease (unless the parties mutually agree), as determined by our Board of Directors or by a committee of our Board of Directors;

Mr. Than shall also be entitled to an incentive bonus, to be determined by the Board of Directors, as well as Options to purchase our common stock;

Mr. Than shall also be entitled to per annum payment of at least 600,000 shares of common stock in exchange for the non-compete provision included in the Employment Agreement;

In the event of the involuntary termination of Mr. Than's service with us, without cause, the Agreement provides that Mr. Than shall be paid a salary and bonus equivalent to his salary and bonus of the year prior to his termination, for a period of three years; and

Either party may terminate the Agreement upon at least ninety (90) days notice. In the event Mr. Than elects to terminate the Agreement, we, at our discretion may relieve him of all duties and immediately terminate the Agreement, provided however, that we shall pay Mr. Than the compensation he has earned until the termination date included in Mr. Than's original termination notice.

## **Outstanding Equity Awards**

None of our officers had any outstanding equity awards granted at December 31, 2012, 2011 or 2010.

### **Issuance of Common Stock**

During fiscal year ended December 31, 2012, we issued to Mr. Than shares of common stock as payment towards accrued compensation as follows: (i) issuance of 1,839,000 shares of common stock on April 26, 2012 valued at \$108,151; and (ii) 8,000,000 shares of common stock on December 26, 2012 valued at \$160,000 (which remains issuable).

### **Issuance of Preferred Stock**

During fiscal year ended December 31, 2012, we issued to Mr. Than shares of preferred stock as payment towards accrued compensation as follows: (i) issuance of 1,000,000 shares of Series A preferred stock on April 26, 2012 valued at \$43,338.

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## **Directors Compensation**

No director received compensation for services rendered in any capacity to us during the fiscal years ended December 31, 2012 and December 31, 2011.

## **Indemnification of Directors and Officers**

Our Articles of Incorporation, as amended and restated, and our Bylaws provide for mandatory indemnification of our officers and directors, except where such person has been adjudicated liable by reason of his negligence or willful misconduct toward the Company or such other corporation in the performance of his duties as such officer or director. Our Bylaws also authorize the purchase of director and officer liability insurance to insure them against any liability asserted against or incurred by such person in that capacity or arising from such person's status as a director, officer, employee, fiduciary, or agent, whether or not the corporation would have the power to indemnify such person under the applicable law.

## **Compensation Committee Interlocks and Insider Participation**

We have not established a compensation committee. We are not currently subject to any law, rule or regulation requiring that we establish a compensation committee. During the last fiscal year, Mr. Gunther Than, an executive officer, participated in our board of directors' deliberations concerning executive officer compensation.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following tables set forth information as of March 26, 2013 regarding the beneficial ownership of our common and preferred stock (Series A), (a) each stockholder who is known by the Company to own beneficially in excess of 5% of our outstanding common stock; (b) each director known to hold common or preferred stock; (c) the Company's chief executive officer; and (d) the executive officers and directors as a group. Except as otherwise indicated, all persons listed below have (i) sole voting power and investment power with respect to their shares of stock, except to the extent that authority is shared by spouses under applicable law, and (ii) record and beneficial ownership with respect to their shares of stock. The percentage of beneficial ownership of common stock is based upon 182,421,178

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shares of common stock outstanding as of March 26, 2013. The percentage of beneficial ownership of preferred stock is based upon 2,989,647 shares of preferred stock outstanding as of March 26, 2013.

| NAME AND ADDRESS OF<br>BENEFICIAL OWNER                                       | TITLE<br>OF<br>CLASS | NUMBER OF                       |     | PERCENT OF                      |        |
|---|----------------------|---------------------------------|-----|---------------------------------|--------|
|   |                      | SHARES<br>BENEFICIALLY<br>OWNED |     | SHARES<br>BENEFICIALLY<br>OWNED |        |
| Michael L. Bagnoli<br>40 Redwood Court<br>Lafayette, Indiana 47905            | Common               | 12,508,500                      | (1) | 6.86                            | %      |
| Martin Maassen<br>1340 Fawn Ridge Drive<br>West Lafayette, Indiana 47906      | Common               | 10,829,624                      | (2) | 5.94                            | %      |
| Gunther Than<br>1550 Caton Center Drive, Suite E<br>Baltimore, Maryland 21227 | Common<br>Preferred  | 24,879,008<br>2,089,647         | (3) | 13.64<br>69.9                   | %<br>% |
| All Directors and officers as a group (3 members)                             | Common<br>Preferred  | 48,217,132<br>2,089,647         |     | 26.43<br>69.9                   | %<br>% |

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- (1) Represents 12,507,125 common shares held by Mr. Bagnoli, 500 common shares held by his spouse and 875 common shares held by a trust.
- (2) Represents 10,000,249 common shares held by Mr. Maassen and his spouse and 829,375 common shares held by his spouse.
- (3) Represents 24,878,383 common shares held by Mr. Than and 625 common shares held by his spouse.
- (4) Source of information is from SEC filings by shareholder and transfer agent list dated as of March 25, 2013.

The above table reflects share ownership as of the most recent date. Each share of common stock has one vote per share on all matters submitted to a vote of our shareholders. We have one class of preferred stock, which we named "Series A." Each share of Series A preferred stock has the equivalent of fifteen votes per share of common stock and is entitled to vote on all matters. Accordingly, Mr. Than's preferred stock has the voting rights of, and is convertible into, 31,344,705 common shares in addition to his ownership and voting rights to 16,878,383 common shares.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

We do not have a specific policy or procedure for the review, approval, or ratification of any transaction involving related persons. We historically have sought and obtained funding from officers, directors, and family members as these categories of persons are familiar with our management and often provide better terms and conditions than we can obtain from unassociated sources. Also, we are so small that having specific policies or procedures of this type would be unworkable.

In order for us to meet our financial obligations, our President, Gunther Than, loans us funds on occasion and is repaid when funds are available. During 2006 and 2005 Mr. Than advanced to us a total of \$0 and \$64,000, respectively. We have not repaid these advances so the balance due to Mr. Than remains at \$64,000.

A shareholder advanced cash on August 9, 2006 to us to help with short-term working capital needs in the aggregate amount of \$50,000 and was paid monthly interest payments of \$2,500 until February 28, 2007, at which point payments were halted after conversations with the lending shareholder.

In October 2007, former director William D. Smith made an unsecured loan of \$116,000 with interest at 12% per year. The amount currently outstanding is \$116,000.

Mr. Burton-Prateley also received a total of 3,500,000 shares of our restricted common stock in May 2009 as partial payment for consulting services rendered to us between 2006 to approximately January 2009. The shares were sold prior to Mr. Burton-Prateley's December 2009 appointment as an officer ..

William Paul Price received 500,000 shares of our common stock in September 2009 as non-officer salary and also received 1,000,000 shares of our common stock in exchange for his interest in FiberXpress, Inc. a company acquired by View Systems, Inc. in September 2009. Mr. Price sold 493,498 shares prior to his December 2009 appointment as an officer.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table shows the fees paid or accrued for the audit and other services provided by our principal accountant. For the annual audit for the year ended December 31, 2012, we initially engaged the firm of Seale and Bears, CPAs, LLC, but we terminated that firm and engaged Stegman & Company. For the annual audit for the year ended December 31, 2011, we engaged the firm of Seale and Bears CPA, LLC.

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|                    | 2011     | 2012     |
|--------------------|----------|----------|
| Audit fees         | \$40,000 | \$50,000 |
| Audit related fees | 0        | 0        |
| Tax fees           | 0        | 0        |
| All other fees     | 0        | 0        |

### **Audit Fees**

Audit fees represent the professional services rendered for the audit of our annual financial statements and the review of our financial statements included in quarterly reports, along with services normally provided by the accountant in connection with statutory and regulatory filings or engagements.

### **Audit Related Fees**

Audit-related fees represent professional services rendered for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees.

### **Tax Fees**

Tax fees represent professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning.

### **All Other Fees**

All other fees represent fees billed for products and services provided by the principal accountant, other than the services reported for the other categories.

PRE-APPROVAL POLICIES

Our audit committee does not rely on pre-approval policies and procedures. Typically, Management has sought out audit firm candidates and presented them to the audit committee. Before the auditor renders audit and non-audit services our board of directors approves the engagement.

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**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

The following exhibits are filed as part of this Form 10-K:

- 10.1 View Systems, Inc. 2010 Equity Incentive Plan (Incorporated by reference to exhibit 10.1 to Form 10-Q filed May 14, 2010)
- 10.2 View Systems, Inc. 2010 Service Provider Stock Compensation Plan (Incorporated by reference to exhibit 10.4 to Form 10-Q filed August 19, 2010)
- 10.3 Employment agreement between View Systems and Gunther Than, dated December 1, 2009 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010)
- 10.4 Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. (Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009)
- 10.3 Purchase Agreement, dated June 1, 2012 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed July 3, 2012)
- 10.4 Amendment to Purchase Agreement, dated June 28, 2012 (Incorporated by reference to exhibit 10.2 to Form 8-K, filed July 3, 2012)
- 21.1 List of Subsidiaries\*
- 31.1 Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer and Chief Financial Officer \*
- 32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*
- \*Filed herewith

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 31 2013.

View Systems, Inc.

By: /s/ Gunther Than

Gunther Than

Chief Executive Officer

(Principal executive officer, principal financial officer, and principal accounting officer)

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Each person whose signature appears below appoints Gunther Than as his or her attorney-in-fact, with full power of substitution and re-substitution, to sign any and all amendments to this report on Form 10-K of View Systems, Inc., and to file them, with all their exhibits and other related documents, with the Securities and Exchange Commission, ratifying and confirming all that their attorney-in-fact and agent or his or her substitute or substitutes may lawfully do or cause to be done by virtue of this appointment. In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Issuer and in the capacities and on the dates indicated:

| Name   | Title   | Date           |
|--|---|----------------|
| /s/ Gunther Than<br>Gunther Than             | Director, Chief Executive Officer and Treasurer | March 31, 2013 |
| /s/ Michael L. Bagnoli<br>Michael L. Bagnoli | Director and Secretary                          | March 31, 2013 |
| /s/ Martin J. Maassen<br>Martin J. Maassen   | Director  | March 31, 2013 |

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